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CONTENTS

24 July 1989

NOTICE TO READERS: An * indicates material not disseminated in electronic form.

International Affairs

Editorial on 'Containing Japan' Article [NIHON KEIZAI SHIMBUN 3 Jul]	1
MITI Opposed to 'Zero Tariffs' Proposal [NIHON KEIZAI SHIMBUN 29 Jun]	2
* Strong Yen Policy Makes Comeback [NIKKEI SHIMBUN 15 June]	2
* Challenges for Nation as World Superpower [VOICE Apr]	3
* Changes in International Economic Order Examined [CHUO KORON May 89]	13
New Grants-in-Aid Plan To Start Next Year [NIHON KEIZAI SHIMBUN 27 Jun]	23
Western Defense Industry Aims at Japanese Market [NIHON KEIZAI SHIMBUN 10 Jul]	24
Government To Freeze Export Approval Plan [TOKYO SHIMBUN 24 Jun]	24
Chemical Material Exports Regulation [NIHON KEIZAI SHIMBUN 27 Jun]	25
Expert Views Administration of Development Aid [THE JAPAN ECONOMIC JOURNAL 15 Jul]	25
MITI To Develop 'Intelligent Manufacturing System' [NIHON KEIZAI SHIMBUN 22 Jun]	26

United States

YOMIURI Notes New Investment Friction [8 Jul]	27
* Broad Vision Needed in Relations With U.S. [YOMIURI SHIMBUN 2 May]	27
Paradox of Cheaper Japanese-Made Goods Overseas [ASAHI EVENING NEWS 26 Jun]	28
Purchase of U.S.-Made Auto Parts Increases [ASAHI EVENING NEWS 24 Jun]	30
Negative Aspects of U.S. Trade Act Noted [THE DAILY YOMIURI 23 Jun]	30
Sources View 'Structural Consultations' [ASAHI SHIMBUN 6 Jul]	31
Positive Outcome to Trade Friction Urged [THE JAPAN ECONOMIC JOURNAL 8 Jul]	31
Paper on Background of Cellular Phone Issue [THE JAPAN ECONOMIC JOURNAL 1 Jul]	32
Paper on Liberalization of Telecommunications [ASAHI EVENING NEWS 30 Jun]	34
Ministry Concerned Over Trade Concessions [ASAHI SHIMBUN 30 Jun]	35
Supercomputer Discount Guideline Formed [ASAHI EVENING NEWS 28 Jun]	35
Civil Aviation Talks With U.S. To Resume [JIJI]	35
* U.S. Congress Continues Pressure [CHUO KORON Apr 89]	36
* Maintaining Voluntary Steel Export Restraints [NIHON KEIZAI SHIMBUN 6 Jun]	43
Trade Policy Record Seen as Inviting Reprisal [THE JAPAN TIMES 30 Jun]	44
Admiral Crowe Slated To Visit in August [SANKEI SHIMBUN 22 Jun]	45

Soviet Union

Firms To Set Up Joint Company in Sakhalin [NIHON KEIZAI SHIMBUN 17 Jun]	45
---	----

China

Government Wants To Resume Consultations [SANKEI SHIMBUN 3 Jul]	46
Cautious Approach Toward Relations With PRC [MAINICHI SHIMBUN 25 Jun]	46
Japanese Businessmen Returning to China [MAINICHI DAILY NEWS 22 Jun]	47
Further on Return of Businessmen [THE JAPAN TIMES 25 Jun]	48
Businesses React to Criticism [ASAHI EVENING NEWS 23 Jun]	48
Government's Views on New Leadership Reported [TOKYO SHIMBUN 25 Jun]	49
Spokesman Comments [MAINICHI DAILY NEWS 27 Jun]	49
Difficulties in Reforms Expected [THE DAILY YOMIURI 26 Jun]	50
MAINICHI Views Leadership Reshuffle [29 Jun]	50
Asian Affairs Chief Views Chinese Relations [SANKEI SHIMBUN 29 Jun]	51
Damage to Sino-Japanese Economic Ties Noted [MAINICHI DAILY NEWS 27 Jun]	52

Economic Ties Said To Limit Action Against PRC [THE JAPAN TIMES 10 Jul]	53
Possible Lifting of Travel Restrictions [YOMIURI SHIMBUN 14 Jul]	54
Government Reconsiders Emperor's PRC Visit [SANKEI SHIMBUN 10 Jul]	54
JCP Answers TIMES Questionnaire on Sanctions [JPS]	55
JCP Chairman Reaffirms CPC Break [JPS]	56
Part 2 [JPS]	57
AKAHATA Editorial on CPC Actions [JPS]	59

South East Asia

Article on Help for Asian Environment [THE DAILY YOMIURI 15 Jul]	61
Government Panel Calls for Technological Input [MAINICHI DAILY NEWS 30 Jun]	62
Views on Regional Asia-Pacific Cooperation	62
Foreign Ministry Official Comments [MAINICHI DAILY NEWS 30 Jun]	62
Soviet Embassy Source Remarks [JJI]	63
* Direct Investment in ASEAN Countries Continues [NIHON KEIZAI SHIMBUN 6 Jun]	63
* Keidanren Mission to Southeast Asia Viewed [SANKEI SHIMBUN 23 May]	66
Refugee Camps for Boat People To Be Expanded [ASAHI EVENING NEWS 29 Jun]	67
Editorial Comments on Aid to Philippines [MAINICHI DAILY NEWS 10 Jul]	67

North Korea

Government Renews Call on Pyongyang [SANKEI SHIMBUN 23 Jun]	67
---	----

South Korea

* No Tae-u Administration's Ties With Japan [Tokyo SANKEI SHIMBUN 12 May]	68
---	----

West Europe

* European Move Toward Unification Examined [SANKEI SHIMBUN 14 May]	70
* Impact of EC Unification Examined [SANKEI SHIMBUN 14-16, 18-21 May]	71
Business Urges Government To Keep EC Market Open [MAINICHI DAILY NEWS 29 Jun]	78
Accord With EC on Chip Exports Nears [THE DAILY YOMIURI 16 Jul]	78
* Banks Move Toward M&A's in Europe [NIHON KEIZAI SHIMBUN 24 May]	78
EC Official on Treatment of European Companies [YOMIURI SHIMBUN 6 Jul]	79
Comments on Integration [ASAHI SHIMBUN 6 Jul]	79

National Affairs

* Opposition Parties Propose Political Reform [ASAHI SHIMBUN 7 May]	79
Editorial on Changing Politics, Election [MAINICHI DAILY NEWS 7 Jul]	80
* Groups Form Within LDP To Clean Up Image [ASAHI SHIMBUN 5 Apr]	81
* LDP Dietmen Interviewed on Political Reform	83
* Kosuke Hori [YOMIURI SHIMBUN 20 May]	83
* Koji Kakizawa [YOMIURI SHIMBUN 21 May]	83
* Yuya Niwa [YOMIURI SHIMBUN 22 May]	84
* Coalition Government Seen as Economic Disaster [CHUO KORON May]	85
YOMIURI on Importance of Political Reform [25 Jun]	86
* Former Adviser Urges Fresh Political Start [GENDAI May]	87
Uno Offers To Implement New Income Tax Cut [JJI]	89
Budget for FY90 Set To Grow by 3.5 Percent [ASAHI EVENING NEWS 26 Jun]	90
Government Pressure To Expand Imports Criticized [NIHON KEIZAI SHIMBUN 23 Jun]	90
AKAHATA Marks JCP Anniversary [JPS]	90
* Worker Shortage Changes Employment Situation [NIHON KEIZAI SHIMBUN 16, 17, 19, 20, 22 May]	91
* 'Users' Critique Financial System Reform [NIKKEI KINYU SHIMBUN 24-28 Apr]	97
* Financial System Reform Debated [NIHON KEIZAI SHIMBUN 3 Jun]	101
* Analysis of Financial System Reform [KINYU ZAISEI JIJO 1 May]	103
* Economy Heads for 'Golden Nineties' [CHUO KORON Apr 89]	109
LDP, Keidanren To Work Together on Reforms [THE JAPAN TIMES 24 Jun]	115

* Bank Official Analyzes Economic Prosperity	[SHUKAN TOYO KEIZAI 22 Apr]	115
* Changes Forthcoming in Retail Store Law	[NIHON KEIZAI SHIMBUN 30 May]	122
* Continuation of Overseas Production Expected	[NIHON KEIZAI SHIMBUN 30 May]	123
Kiedanren Urges Defense Research, Development	[MAINICHI DAILY NEWS 18 May]	124
MITI Unveils Project To Combat Environment Problems	[Jiji]	124
Manned Space Program Included in Outline	[ASAHI EVENING NEWS 28 Jun]	124
Foreign Ministry Science-Technology Diplomacy	[NIHON KEIZAI SHIMBUN 7 Jul]	125
* Profile of Politician Setsu Shiga	[SEIKAI ORAI Apr]	125

FBIS-EAS-89-140-S
24 July 1989

1

International Affairs

Editorial on 'Containing Japan' Article
OW0507131389 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 3 Jul 89 Morning Edition p 2—FOR
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[Editorial: "Japan Should Not Be a Special Country"]

[Text] An article in the U.S. magazine ATLANTIC by James Fallows entitled "Containing Japan" has become the talk of the town. The gist of its argument is: "Japan finds it impossible to control itself for harmony with the world with a mechanism for boundless economic expansion at work. The United States should contain its economic expansion to maintain friendly relations with Japan."

It may not be a call for containment but there are voices gaining force in the United States. These voices say, "Japan does not try to maintain order; it is impossible to expect new leadership from Japan." In these voices we can feel the self-righteousness that what the United States does is correct, and it is Japan that errs. However, on the other hand, they have something which we can not ignore altogether.

Japan surpassed the United States in 1987 in terms of per capita national income and became an economic superpower with its net foreign credits exceeding \$300 billion. However, Japan is honestly at a loss without knowing how it can contribute to the world. If Japan itself is at a loss, it may be impossible for other countries to recognize Japan's leadership.

Japan's Opaque System

Historically, nations that boast of powerful economic strength had clear-cut principles which other countries had no choice but to recognize. On the basis on those principles they carried out foreign policies. The principle of the United States, which has been in a dominant position over others since World War II, was democracy. On the grounds that the group of Stalin-led communist countries threaten democracy, the United States implemented the Marshall Plan, which may be called a feast to the free world. In the first half of the sixties, President Kennedy advocated "a decade of UN development" and spelled out active economic assistance policy.

Although the democracy advocated by the United States was a little constrained and sometimes nonplussing, few doubted the true intention of the United States. Despite their respectively peculiar cultures and circumstances, countries thought, in principle, it was all right to accept democracy because the United States, a multinational country, had democracy embodied at home.

Britain, an economic superpower, advocated the free trade principle in the first half of the 19th century. Some argued that it was a logic of the strong but few doubted the true intention of Britain. This was because Britain totally opened its markets through the abolition of the

Grain Act in 1846 and because the free economic principle was endorsed by parliamentary democracy and mature civil society.

What about Japan compared with these precedents? Regrettably the intention of this economic superpower is unclear and there are many opaque points in its domestic system.

In the Recruit scandal, for example, the Tokyo District Prosecutor's Office indicted defendant Ezoe of the Recruit Co on charges of transferring unlisted shares of Recruit Cosmos Co to politicians, high-ranking bureaucrats and executives of Nippon Telegraph and Telephone Corp. in return for their favors to the Recruit Co. It was a deal behind closed doors among bureaucrats in the saddle, traders having money, and money-hungry politicians.

The scandal was given wide publicity overseas as well. Many held the view that in Japanese economic society under the semipermanent rule of the Liberal Democratic Party, there may be unfathomable dealings, though not necessarily criminal acts like the Recruit case, conducted behind closed doors among politicians, bureaucrats and industrialists. In other words, the scandal was not an exceptional case but structural graft that can happen any time anywhere.

The close cooperative ties among politicians, bureaucrats, and businessmen are namely the image of "Japan Company, Inc", and they have often been talked about as the secret of the strong Japanese economy. The United States sometimes uses this Japan Co, Inc to draw concessions from Japan. They address politicians, move the government and apply the brakes on the industry, whose international competitiveness is too strong. No matter how we may claim that the Japanese markets are free, the image that Japan is a managed country takes root, so long as we repeat the instances in which the industry is silenced if only the government is frightened into submission.

The United States designated Japan as an unfair trading country under Section 301 of the omnibus trade act. If Japan complies with talks to avert sanctions, friction can be resolved for the time being, but the image gets stronger that, after all, Japan was conducting unfair trading. The government and the industries concerned find themselves in a serious dilemma.

Free And Fair Principles Desired

If Japan perceives that its markets are open, it should plead so without apology and may as well retaliate, if it should be subjected to sanctions. If it thinks otherwise and believes that it has opaque areas, it should establish free and fair principles here and now without having to be told to do so by the Americans. A system should be established in which anyone can have access to any market so long as he or she has the ability and enthusiasm regardless of his or her race and nationality.

FBIS-EAS-89-140-S
24 July 1989

2

The recent Japan-U.S. telecommunications talks left an unpleasant aftertaste because both sides made the talks a win-or-lose war from beginning to end. The talks were brought to a political settlement without discussing which system is most convenient and effective for car telephone users, which system conforms to technical innovations and if there can be criteria established or not which are common to both sides.

Japan should no longer be a special country, no matter how strong it may be. Our society has many good things which pass current with the world. On the contrary, there also are many things, which may be self-evident to us Japanese but which are incomprehensible to foreigners.

If Japan can build an easy-to-understand, free and fair society at home, it may be possible to demonstrate leadership naturally without overstretching itself.

On 14 July the 15th summit meeting of advanced nations opens. The Arche Summit will be the beginning of the third round of summit talks. On this occasion we hope everyone will think about how Japan should be.

MITI Opposed to 'Zero Tariffs' Proposal
OW1107082089 Tokyo NIHON KEIZAI SHIMBUN in Japanese 29 Jun 89 Morning Edition p 5—FOR OFFICIAL USE ONLY

[From the "Undcurrent" column: "The Utterance on Zero Tariffs on Industrial Products"]

[Text] Liberal Democratic Party [LDP] Secretary General Hashimoto put forward a proposal for "zero tariffs on industrial products" at the Government-LDP Economic Restructuring Promotion Headquarters on 27 June. However, the Ministry of International Trade and Industry [MITI] is opposed to the proposal, saying that "it is an impossible proposition."

The secretary general's proposal smacks of a politician's calculated contrivance. First, it will profit Prime Minister Uno if Japan discloses the plan at the summit meeting of advanced countries (Arche Summit) scheduled for July. With a House of Councillors election approaching, it will also serve as a persuasive means to deepen the understanding of farmers that "it is not merely the area of agricultural products that suffers from the opening of the market." The proposal is thus aimed at killing two birds with one stone.

What makes the MITI indifferent to the proposal is its disregard of the fact that the average rate of Japan's tariffs on industrial products is 2.7 percent, already the lowest among advanced countries. Only textiles and leather products still remain high-tariff items, and 70 percent of mechanical products are now said to be free of tariffs.

In addition, the lowering of tariffs is now under negotiation at the Uruguay round (multilateral trade negotiations) of the General Agreement on Tariffs and Trade (GATT). Japan has already expressed the position that it

is ready to reduce tariffs on all industrial products to zero if other advanced countries take the step at the same time. In this context, if Japan enforces the "zero tariffs" system ahead of others, it will no longer have a trump card in bargaining with negotiating partners.

The complaints of Europe and the United States against the backdrop of huge trade imbalances are beginning to be directed more at nontariff barriers such as a distribution system, rather than at tariffs. In this regard, a ranking MITI official says: "The proposal might have been good for the past fixed exchange rate era; however, nowadays, when exchange rates fluctuate severely, even if we reduce our present tariff rates, set at 20 percent or so, to zero, it will hardly produce a desirable effect in terms of expanding imports."

Nevertheless, there are even many people in the economic world who call for the abolition of tariffs on industrial products. The Japan Committee for Economic Development already proposed "zero tariffs." In addition, a leader of the Federation of Economic Organizations made the following remarks: "The measure will be most useful in showing Japan's efforts to fulfill its responsibility. Japan's average tariff rate is already low, and the abolition of tariffs will cause no big domestic problem."

Whether the proposal to reduce tariffs to zero is good or not, it appears that the MITI just does not like the idea.

*** Strong Yen Policy Makes Comeback**
41060134 Tokyo NIKKEI SHIMBUN in Japanese 15 Jun 89 p 3—FOR OFFICIAL USE ONLY

[Article by Industrial Bank of Japan research division chief Tomonai Takuro]

[Text] One reason Japan is reassessing the direction monetary policy should take is because West Germany raised their official discount rate and Lombard rate on the 20th. Since Japan's discount rate, which has not risen in 9 years, is closely related to the German rate, a hike in the Japanese discount rate would see interest rates climb from 0.2 to 0.3 percent, compared to 1 month ago, for both the short and long term. Add the consumption tax and the high price of oil into the equation and you have a continuing tendency toward a cheaper yen which is fueling fears of inflation. But if we consider only the problem of commodity prices, the situations in Japan and West Germany seem to have little in common.

A Different Situation in West Germany

Last year, West Germany's 3.4 percent growth rate was the highest for the 1980's. Thanks to their mild summer, this year indicates continued unabated investment in the German construction industry. As a result, productivity of the manufacturing sector is close to 90 percent. In March, the price of industrial goods was 3.4 percent higher than the previous year, consumer goods 3.0

FBIS-EAS-89-140-S
24 July 1989

3

percent higher, while the rise in the consumer tax implemented in January of this year has served to raise the price of goods by 0.6 to 0.7 percent, all of which is acting to raise prices across the board in West Germany. The fears of the W. German federal banks are based on their efforts to formulate a stricter monetary policy within the context of the tri-annual negotiations with the workers unions to be held early next year, and to forestall mid-term cost-push inflation through holding down prices this year.

If we compare our situation here in Japan with West Germany, we can afford to take a slightly more optimistic view regarding rising prices. The March consumer price index for the Tokyo metropolitan area showed a rise of 2.6 percent, but assuming that 1.3 percent of this was the effect of the new consumption tax, and that the hike in postage rates also played a part, we can say that generally, prices are remaining relatively stable. While it is true that the problem of this year's rising prices was generally seen as a peak phenomena during the period from April through June, we, nonetheless, find ourselves in a difficult environment in which to make basic changes in monetary policy if we think only in the context of dealing with prices. Accordingly, any movements in monetary policy or market interest from here on will be related to the problem of rising prices, but will primarily be focused on more rapid movement in exchange rates.

Back to the Pre-Plaza Level

In light of the 24 February rise in the American discount rate, the dollar is quickly gaining strength and the yen progressively falling to a point which should stabilize around 134 or 135 to the dollar. While we cannot ignore the effects of high oil prices and our current political instability, the fluctuations in the yen-dollar rate since the second half of February has become a first step toward widening the interest gap between our countries, something which, taken to the extreme, could result in a call to buy dollars. Considering the issue from the side of domestic investors, and if there is no risk of a weak dollar affecting the difference between our interest rates, investment in monetary assets will increase and once again start a cycle of increasing the value of the dollar, something which can make the risk of a cheaper dollar greater than the risk of the difference in interest rates. This will induce a continuation of the cycle until the dollar and yen reach their respective balance. Of course, this balance would differ from the current rate and reflect a movement toward a strong dollar similar to what we had before the Plaza Agreement. This is a departure from fundamental economic practice. It is a seed which will germinate and grow into a suddenly stronger yen, and weaker dollar, as a result of a poorly adjusted exchange rate in the future. This would lead to a fundamental difference between our two countries greater than that evidenced before the Plaza Agreement. If we leave the exchange rate unadjusted, waiting for it to find its own level, we cannot say that there is no possibility it will readjust during the later half of the

year. If we consider a rebound of high prices from a fall in yen value, it becomes appropriate to keep a close watch on the progress of the exchange rate. This, however, may not be adequate monetary policy for a country like Japan which is running the world's largest trade surplus.

Adjusting Exchange—An Important Tool

Even if the exchange rate continues at its present rate, as it has during the period from April through June, we should stress the importance of balancing trade, and pay at least as much attention to the dangers of a cheaper yen as we pay to the fear of inflation. This means that we do not wait and allow the yen to naturally assume its accurate value, but make more willful efforts to prevent the cheaper yen from widening the difference in our interest rates while facing the necessity of balancing foreign exchange through a forward-looking monetary policy.

Keeping the exchange rate accurately adjusted will not in itself result in a more even balance of trade, but it is one important means to this end. Trade friction between Japan and the United States is heating up again as a result of a 1-year trade imbalance of around \$50 billion, and there is doubt as to what effect, if any, our agreement with the United States concerning Super 301 [of the trade bill] and the mobile telephone frequency issue will have on alleviating the problem.

The effective way back to a foreign exchange market with a steadily climbing yen, without a slowdown in economic growth, and with an elimination of the fear of a cheap yen, may lie in the adoption of these measures, plus stressing the control of inflation. We think that it is possible, even in light of the April Group of Seven accords.

*** Challenges for Nation as World Superpower**
41050074 Kyoto VOICE in Japanese
Apr 89 pp 70-90—FOR OFFICIAL USE ONLY

[Interviews with Shintaro Ishihara, former minister of transportation; Tsuneo Iida, professor, Nagoya University; Tooru Yano, professor, Kyoto University; Noboru Makino, chairman, Mitsubishi Research Institute; Gohei Kogure, president, Dentsu Inc. by Takeshi Inagaki: "Goals for Japan in the Heisei Era: Challenges for Japan, the Superpower; What Can Be Built?"; date and place not given]

[Text] Introduction

As Japan leaves the turbulent Showa period and enters the Heisei era, will its future path be "tranquil," as reflected in the Chinese characters in the new era's name? Now that Japan is an economic power in name and in fact, and its per capita income is the highest among the world powers, it appears that we are uncomfortable with our global responsibilities, which have grown larger and heavier.

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24 July 1989

4

Like it or not, Japan has become a world power. What goals will it set, how will it meet future challenges, and in the process, what issues will it have to resolve and conquer? What sort of scenarios can it draw to achieve prosperity for itself and the world?

These questions were asked of Shintaro Ishihara, member of the lower house of the Diet; Tsuneo Iida, professor of Nagoya University; Toru Yano, professor of Kyoto University; Noboru Makino, chairman of Mitsubishi Research Institute; and Gohei Kogure, president of Dentsu Inc.

Shintaro Ishihara: Politicians Should Speak of Japanese Civilization

[VOICE] Because of the Recruit scandal, there are strident demands that politics be cleaned up.

Ishihara: There have always been calls for political reform and political ethics, but a noble politician is an impossibility. To expect the purity of a hermit from a politician is asking too much. A person whose work demands that he be an expert in worldliness certainly will be worldly to excess. I am certainly not saying that it is alright for politicians to be corrupted, nor do I intend to make excuses for the current problem, but politicians will be worldly even if limits are set.

[VOICE] The problem is that politics costs too much money. That is not necessarily the sole responsibility of politicians. How about the voters, especially those who want favors from the politicians?

Ishihara: Even a congratulatory gift at a New Year's gathering is almost 10 million yen. Then on the politician's side, it is thought that it is a stupid custom but 10,000 yen per introduction is bearable. It is endless. To be fair, therefore, penalties have to be imposed on the receiver as well as the giver in order to completely abolish such meaningless formalities.

[VOICE] Aren't there problems with the election system as well? For example, elections cost too much under the existing medium constituency system.

Ishihara: There are various problems with this system, especially the fact that contests between ruling party candidates are very fierce. However, if electoral districts are reduced to single-seat electoral districts, there will be a constant turnover of Diet members and national policy will never be set. Local government leaders will enter the Diet in rapid succession; and under such circumstances, it will become impossible to have truly firm national policy.

It would be better to make all the medium constituencies uniform, either all two-seat or all three-seat districts, and to completely separate them from the four types of administrative districts. As a matter of fact, the system of four types of administrative districts should be abolished. Tokyo has to be made a special district, like Washington, D.C., in the United States. Also, the administrative districts should be made bigger, such as a

northeastern state, or a state of Hokkaido. Without such changes, the losses are great. However, such sweeping reforms cannot be taken unless Japan is ruled by a military regime.

[VOICE] Can the LDP continue to maintain the single party majority?

Ishihara: Probably not, but hasn't it been long enough? The opposition parties long ago discarded the historically bankrupt plumes of socialism; the Japan Socialist Party (JSP) has cleaned up its factions; and the Komeito Party [Clean Government Party] finally has discarded religious socialism. Politics must be restructured so that two governing parties can be created, like the Democratic and Republican Parties of the United States and the Conservative and Labor Parties of the United Kingdom. When Wilson of Britain's Labor Party won the government for the second time, he clearly declared, "I do not advocate socialism."

[VOICE] However, judging from the present circumstances of the opposition parties, I cannot imagine that they would be able to become political parties that can run the government.

Ishihara: They must.

[VOICE] If the LDP breaks them up, that will be possible.

Ishihara: Yes, and the LDP will split also. The occasion would be the forming of a coalition with the Komeito. Since other Japanese religious groups, which form a major support base for the LDP, will protest en masse, a large number of people probably will leave the LDP. The Komeito Party recently has become very clever, and is starting to ask questions in the Diet from a position worthy of a ruling party and raise points that it thinks should be improved. In a sense, however, it is still a party that one cannot figure out.

We Let the United States Protect Japan

[VOICE] The LDP is a party whose base extends from left to right. So far, this has worked to its advantage because it lent flexibility to policy. However, we would like to see the current factional structure give way to grouping along policy lines so that selection of the prime minister would be in the policy, not factional, dimension. It is a problem that the people never know what a new prime minister's policies will be until he makes a speech on his administrative policies.

Ishihara: You are absolutely right. A viewpoint of Japan as part of the world, not just within its borders, is needed. The history of the human race proves that new technology creates civilization and nurtures cultures. In that sense, ownership of high technology made it possible for Japan to create a new civilization. However, politicians do not have that historical perspective or insight.

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24 July 1989

5

A direct example of this is the problem of development of the FSX (next generation support fighter). The aircraft as designed by Mitsubishi is an innovative one and with its canard wings and computer, it can easily perform acrobatics such as small, sharp rotations that would cause an existing aircraft to fall to earth right away. Carbon fiber composite material and ceramics would have been used to make the aircraft. It would have given Japan absolute strategic superiority, as the zero fighter did in the early stages of the Pacific war. The United States wants to control Japan's defense system, so when it became aware of this, Weinberger, et al., raised complaints and had it turned into codevelopment. The F-16 that will be the base of the FSX also will have canard wings, but it has some limitations and it is unclear whether its rotation radius can be as short as the aircraft designed by Mitsubishi.

That was why I insisted to other LDP members that we should go ahead with independent development, but no one listened. I happened to meet former Prime Minister Nakasone on the golf course. Since he was responsible for the decision to codevelop the FSX with the United States, I took him to task for making such a mess of the FSX. Nakasone answered, "When I was defense minister, I was responsible for the fourth defense plan, and I discovered that since that time, the United States had been very worried about Japan following an independent defense course, so I compromised." I said, "That wasn't just compromise, that was total surrender." Nakasone denied that it was.

There is no doubt that Japan is the world leader in high technology. If Japan sank into the ocean like Atlantis, the Pentagon would be the first to suffer. After all, Japan is the only manufacturer of the 1 megabit large capacity memory chips that are necessary in super-fast computers that will be the brains of the SDI program. To a great extent, Japan has hegemony in strategic weapon technology. I think that Japan's power over integrated circuits pushed the United States and the Soviet Union to conclude the INF (intermediate nuclear forces) elimination treaty.

[VOICE] If Japan's technology is such a powerful trump card, why don't they retreat so easily?

Ishihara: Because Japanese politicians lack that historical awareness. Pentagon experts know it, but Diet members do not. That is why, when there is fear that U.S. aerospace technology will be leaked to Japan, the United States stupidly proposes postponement of FSX codevelopment, which it forced on Japan in the first place.

I think that at this point, we are letting the United States protect us. We let them be a watchdog. That means that for the present, we support U.S. global strategy, but if we seriously apply Japan's high technology to the creation of effective new weapons, we can independently achieve defense in its truest sense.

[VOICE] But are we really putting high technology to good use even in the civilian sector? There is the anachronistic behavior of putting emphasis on expanding the Shinkansen lines instead of on the linear (superconducting magnet) lines.

Ishihara: That is why I held down expansion of the Shinkansen lines to a minimum. No additional Shinkansen lines can be built. Everyone knows that. It did not work out the way we expected. If linear tracks are laid along the Tokaido route, aircraft will not be needed to fly between Tokyo and Osaka, and they can be transferred to regional air service and regional airports can be refurbished. That would help develop local areas more effectively than Shinkansen lines.

I think that the Heisei era will be exactly as symbolized in its name: Domestically, Japan will become peaceful, and so will the outside world. Politicians must realize that and, with the historical awareness that Japan has become a creator of a new civilization, they must lead Japan to face the world and stick to its guns. When necessary, Japan must say "no" to the United States. If not, I think we will lose sight of why the Japanese have strived so hard to maintain their historical perspective.

Tsuneo Iida: Scratch the Surface and Underneath Is a Steady Economic Power

[VOICE] The change from the Showa to the Heisei era is not in name only. I think that Japan as a whole has reached a turning point.

Iida: The Japanese economy has grown unbelievably strong. I guess you could call that a turning point.

[VOICE] We have the heavy responsibility of ensuring that our strong economy continues to grow at a stable rate while we carry out our obligations to the world.

Iida: Yes, I agree. However, we are already carrying our global responsibilities to a great extent. For example, our ODA (official development assistance) in the budget for the first fiscal year in the Heisei era will be 11.1 billion yen, the largest in the world except for that of the United States.

[VOICE] However, it would not be good if ODA creates a mechanism for bribery in the developing countries, as in the Marcos regime.

Iida: Generally speaking, bribery is rampant in the developing countries, much more so than in Japan. Nevertheless, ODA is intergovernmental aid, so we have to deal with the regimes governing these countries. I may be criticized for saying this, but perhaps we have to be resigned to the fact that we are throwing away a certain percentage of aid. However, the remainder is doing some good, as is readily apparent if one looks around in these countries.

For example, the downtown section of Manila used to flood whenever it rained, but Japanese aid was used to set up drainage pumps, and this improved sanitation as

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24 July 1989

6

well. In Thailand also, consultants were paid with Japanese aid to dig wells in the impoverished northeastern region despite the fact that public security was shaky. All we need to do is continue these sort of steady efforts.

[VOICE] Many leaders of developing countries have very strong nationalistic vanities, and they tend to ask for the most sophisticated plants available. Such plants are well beyond what these countries need. Would it be possible to advise them to build a more honest industrial base?

Iida: According to the "white paper on ODA" issued by the Ministry of Foreign Affairs, we are very strict about that. The paper maintains that there is a clear-cut philosophy that our aid is to help build up the recipient country and to assist the self-help efforts of the recipient. U.S. aid is linked with military matters and the purpose of Soviet aid is to spread communism, but Japan does not have such self-serving motives.

[VOICE] Aren't we threatened by competitive pressure from the NIE's (newly industrializing economies)?

Iida: An NHK (Nihon Hoso Kyokai broadcasting corporation) producer who recently did a story on this issue says that the three favorite products from the NIE's are kimchi, a ginseng vitamin drink and instant noodle soup. The favorites are not cheap household electrical appliances. As Japanese technology jumped to a much higher level and produced high quality products, consumers began to seek higher quality goods even if they cost a bit more. I don't think there is much fear of competitive pressure.

Even the VTR's (videotape recorders) made in South Korea and Taiwan use heads made in Japan. If industries in the NIE's become more advanced, the supplying of parts from Japan will increase. Furthermore, the situation is such that Japan is always one step ahead of the NIE's, such as by using amorphous alloy heads for VTR's made in Japan.

Iida: The high-tensile steel used for the body of the Pony, a passenger vehicle exported by South Korea, is made in Japan. Because this steel remains strong even when made thinner, the vehicle body is light and fuel consumption is good. This steel must be used in order to export the vehicles. When I asked someone at Nippon Steel why this steel cannot be made in South Korea, he answered, "Ask me why it can be made in Japan." That is supreme confidence. I sense that we are shedding our skin as we enter the new era.

[VOICE] Isn't it actually beneficial to Japan that the NIE's led by South Korea and Taiwan are one step behind and steadily pursuing Japan?

Iida: It is comforting that they follow Japan in formation like wild geese in flight. Although some types of industry have been damaged, I feel that we have entered a very good cycle of complementary relations in which, as in

the case of high-tensile steel, sale of Japanese products go up as development progresses in the Asian countries.

There is a great deal of fuss about European market integration in 1992. However, as expressed so cleverly by Masataka Takasaka, only weaklings create groups. As proof of that, in its heyday, the great British Empire did not consider forming groups. In Japan's case, it is enough that the Asian countries follow Japan; a group does not have to be formed.

Making Profits and Keeping a Low Profile

[VOICE] The major companies are fighting over globalization. There even is a movement toward dispersing the main offices all over the world. Is there danger that this will cause society to hollow out?

Iida: I think there is danger of the opposite. Today's young people do not want to be assigned overseas. Nagoya is an extreme, and in the past few years, the top of the list for places of employment for graduates of the economics department of Nagoya University is the Nagoya city hall.

[VOICE] So the fact that Japan has become too comfortable is hindering internationalization?

Iida: Yes. It is said that England was able to build the great British Empire because English food and English weather were so bad. That is why energetic people became pirates and sailed the seven seas. In Japan, the weather is good, the food is tasty, and on top of that, it is the safest country in the world and service in the stores is good. One does not have to be really careful with relationships. Under such circumstances, it is natural that no one wants to fly abroad. However, the crude energy of the pirates is lacking.

[VOICE] Yes, we may lose our enterprising spirit in the new era.

Iida: That is a concern, but even if our companies span the globe, when a company makes inroads into a country, it is staffed almost completely with the nationals of the country.

[VOICE] Now that the yen is so strong, will it become a key currency along with the dollar?

Iida: I think so. When Bank of Japan President Sumita expressed that idea at last year's IMF (International Monetary Fund) general meeting, there was a lot of adverse reaction. From an objective viewpoint, however, it has become clear that it is not good to have just the dollar as a key currency, so what probably will happen is that the yen-dollar rate will be fixed and the yen also will be made a key currency.

[VOICE] Domestically, there is a need to correct over-centralization in Tokyo and to activate the regional areas.

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24 July 1989

7

Iida: The truth is that residents of Tokyo do not hate living in Tokyo as much as the intellectuals say they do. These days, Tokyo has no rival anywhere in the world in terms of fun, and it has become the biggest resort in Japan. All my friends are in their fifties, but they say that they do not want to leave Tokyo.

[VOICE] That is probably why government offices do not want to move to the other regions.

Iida: However, Tokyo is too crowded, so housing and commuting are just appalling. On the other hand, the "break up the capital" theory that advocates the dispersal of capital functions to the outlying regions is not very realistic. The "expand the capital" theory is more realistic, and the way to realize it is the linear motorcar.

With the linear motorcar, it will only take 40 minutes to travel between Tokyo and Nagoya. Land is still quite cheap in Nagoya. A fine house in the suburbs can be bought for 30 million yen, so a person could live here and commute to Tokyo. Then stores that suit the tastes of Tokyoites and schools that are not inferior to those in Tokyo will be built and the local Nagoya people will be happy. It would be better to aim for the creation of a "greater Tokyo" which spreads as far as Nagoya.

[VOICE] However, people in the outer regions are clamoring for new Shinkansen lines, not the linear motorcar.

Iida: Nevertheless, the Tokaido Shinkansen line is on the verge of a breakdown. Even if new rails are laid, the useful life of the structural framework on which they are laid will be over in about 10 years. That means that operation must be halted for a long period for reconstruction. It would be a disaster if Japan's main artery was severed in such a way, so it will be necessary to build an alternate line. It would be better to build a linear motorcar line instead.

Politics requires vision with a broad span. Today, Japanese are resented by the world for keeping a low profile and concentrating only on making money. However, politicians should have a broader perspective. They don't have to swagger around, but instead of being like quails with heads bent to the ground foraging for food in a bamboo grove, they should hold their heads high like ostriches and look further into the distance.

Toru Yano: Preparing for "Cultural Friction"

[VOICE] Based on the change "from stock culture to flow culture," to which you referred in your book, what do you think will be the issues for Japan in terms of international politics and diplomatic policy in the Heisei era?

Yano: I think that special emphasis has to be placed on EC integration in 1992. Since it entered the 20th century, the European world in many senses has become unnatural in form. The Russian revolution of 1917 created a conflict of systems which tore Europe apart, then a monster called Hitler appeared and Europe was torn

apart again. Then there was World War II, and after the war, Europe was split in two by the cold war between the East and the West.

The hope that Europe would become one again never died, and out of it grew the EC integration movement. The basis for this is the idea that this is the true form of Europe which in fact existed prior to the Russian revolution.

Consequently, the thing to watch for after EC integration takes place is the advent of a completely new dimension in East-West trade. EC integration strategy includes a dynamic worth noting, the goal of taking control of East-West trade, not just vis-a-vis the Soviet and East European markets but also the Chinese market by using the Soviet Union as an intermediary after Sino-Soviet detente. The sun is not setting on Europe; Europe is trying to make a comeback through EC integration. Europe's strength is that it has tremendous historical and cultural stock.

[VOICE] Then it cannot help but collide head-on with the cultures of the Pacific bloc and the Asian bloc, where the Japanese lifestyle has spread and in which a dynamic flexible culture takes precedence over the old cultural stock.

Yano: Aware of the problem, Europe is trying to convert its wealth of cultural stock into this dynamic flexible culture. If it succeeds, it will be invincible. It certainly will take the Chinese market, and it may take the Southeast Asian market as well. Japan must be aware of the great possibility that U.S.-European culture will play a central role in the first half of the 21st century. It must take a realistic look at the dynamics of the international order and not be deluded by things like the "destiny of a superpower" theory.

[VOICE] What will happen to U.S.-Japanese relations, which will continue to be the most important issue in Japan's diplomacy in the future?

Yano: I think that the state of U.S.-Japan relations will grow increasingly critical. In the past, there has been economic friction, which came up as friction over individual items, first textiles, then automobiles, followed by semiconductors. That will evolve into "cultural friction," which by its nature will preclude any forewarning of what will be the source of friction.

For example, tremendous friction arose over the U.S.-Japanese science and technology (S&T) agreement last year. Friction then appeared in the form of the intellectual properties issue. Then there is the outstanding problem of agricultural friction. This is not merely economic friction, it is friction over industrial structure itself. On top of that, there is legal friction, which is a chronic problem, although not played up too much. Because the difference between Japanese and U.S.

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FBIS-EAS-89-140-S
24 July 1989

8

domestic laws is so great, the friction grows ever stronger. The more Japanese and American firms advance into each other's countries, the more persistent this friction will grow.

[VOICE] After all, laws are born from a country's culture.

Yano: That's right. Laws reflect everything about the country, not just its culture. What worries me in particular is a world view friction; Japan and the United States do not have exactly the same views on U.S.-Soviet relations, which have entered into a new detente, or on Europe, Asia or the Third World. I cannot help but feel that the United States and Japan suddenly have begun comprehensive friction.

However, we are familiar only with "item-specific friction." Such individual issues can be resolved through diplomatic negotiations, but comprehensive friction is more serious. That is why I think that, excepting U.S.-Japanese security, the time has come to reconsider fundamentally how to completely overhaul the U.S.-Japanese relationship.

Conditions for a Complete Victory for Japanese Culture

[VOICE] Comprehensive friction is beyond the capability of diplomats. Even regarding friction over S&T, Japan's Ministry of Foreign Affairs (MFA) does not have a staff which can grasp the flow of S&T and make the right decisions.

Yano: The composition of today's MFA is based on the sensibilities of an economic nation of the 1960's. As shown plainly in the intellectual properties issue, friction over leading edge S&T will become fierce. Bureaus that handle regional areas, such as the North American Affairs Bureau, cannot deal with this. Topic-related bureaus will be necessary.

[VOICE] The U.S. Congress has a technology assessment bureau that issues reports on global strategy for S&T. Is there such an organization in Japan?

Yano: There is an S&T council which is chaired by the prime minister and is composed of the minister for science and technology and other concerned cabinet members and technical experts. This council has established a commission on international S&T issues, but it has no power to set diplomatic policy at all. MFA officials merely go there to study. Under such circumstances, we will be at a loss when our strategy must be converted from that of an economic state to one of an S&T state.

The worst thing is that unlike item-specific friction, cultural friction is extremely long-term and substantive. Therefore, it is beyond the capability of government officials, who rotate to different areas of responsibility every 2 or 3 years. Also, there is no government department that can put together strategy based on such a long-range outlook.

[VOICE] If there is cultural friction, our position will be tenuous unless the Japanese themselves have confidence in and identify with the new dynamic culture that now is being fashioned.

Yano: A dynamic culture is strong as long as its capacity is greater than other cultural blocs. However, it has two flaws. One is that it will be overwhelmingly defeated if historical culture becomes the criteria for value. Fortunately, however, history probably is moving toward an era of dynamic culture superiority, and to that extent, we will have the advantage. However, there is another flaw, the fact that we are certain to be defeated when the Europe succeeds in changing to a dynamic culture.

For example, Florence has inherited the old Roman civilization and has tremendous stock and cultural inheritance. So long as they are being used merely as resources for tourism, Florence is the same as Kyoto and Nara and we have nothing to fear. Recently, however, Florence has been changing. It is digging up Florentine sensibilities on aesthetics, design and color, and is trying to apply them to the production of goods in the future. Florence is becoming the focus of European fashion.

In that respect, as far as the fashion industry is concerned, Japan already is weaker than Europe and if Florence begins to do these things consciously, Japan will be crushed.

[VOICE] Doesn't Japan also have a historical culture that can be used?

Yano: Japan has its own unique cultural stock. It exists in Japanese ceramics, for example. The products of Noritake, which has become an international firm, evolved from traditional Seto ware. We will be strong if we take traditional things and apply them to today's everyday life.

A unique feature that Japan should use in the future is the concept of thinking of everything in terms of dwelling space. In contrast to the European, bird's-eye view conceptualization of using a blueprint to decide where to put a road or a city hall, Japanese conceptualization comes from the "dwelling space" that live human beings carry around with them.

For example, using this concept, a car would be designed from the sense of space felt by the human beings sitting in the car, not from the viewpoint of streamlining the car's body.

[VOICE] Nissan Motor Company's Be-1 was created from that very concept.

Yano: Yes. When that car was made, consideration was given in all aspects to the living human being who would be driving the car. A limited number were produced and they were all sold. Another thing is that, instead of the European and American car production system in which the consumer buys a finished product, Japan is the only country that can use personal computers, of which Japan is the greatest disseminator, as production terminals to

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FBIS-EAS-89-140-S
24 July 1989

9

produce cars inexpensively and rapidly according to the options desired by each individual consumer.

The current boom in luxury cars should not be for making just expensive cars. Each person's idea of what is luxurious and aristocratic should be reflected in the production process. In this way, Japan can produce superb luxury cars that are different from status symbols of the European aristocracy.

We are approaching the end of the age when the mainstream was massive things, such as jumbo jets and ICBM's (intercontinental ballistic missiles) made by European and American civilization. The production mode of making things which precisely fit each living person will become the mainstream of civilization. At that time, Japan should shift to human-oriented production. It should make everything used in the human life cycle from birth to death, from disposable diapers to equipment for caring for the bedridden elderly.

Then, each Japanese should think of Japan's riches not as national wealth but to a great extent as international public assets, thus rejecting isolation and allowing Japan's flow culture to transcend its national identity and permeate the world as naturally as water. If this can be done, I think that Japanese civilization will win an overwhelming victory.

Noboru Makino: U.S.-Japanese Division of Turf Will Prevent Isolation

[VOICE] What sort of technoeconomic issues are there in connection with Japanese industry and S&T?

Makino: Wages in Japan, especially blue collar wage levels, are some of the highest in the world. Also, the price of land is so ridiculously high that if you sold the Chiyoda ward in Tokyo, you could buy Canada. Thirdly, the cost of energy, such as electric power rates, are high. The only way to survive under such unfavorable terms is to be a high technology state.

If this is not done skillfully, however, under circumstances in which the wages of laborers in Japan is five times that of South Korea, there is danger that Japan will turn away from production of real goods. There are some companies who have gotten away from industrial production and who insist that they can go into service industries and make their living on soft goods alone, but unless production of soft goods is connected with the production of real goods, there will be a hollowing out, as was the case in the United States. How high technology can continue to be tied to real goods production is an important issue.

[VOICE] With that in mind, what S&T sectors should be expanded by Japan in the Heisei era?

Makino: That should be studied from the viewpoint of how can we skillfully divide technological turf with the rest of the world, especially the United States. Unlike the United States, Japan does not have many outstanding men of talent. However, Japan does not have a lot of

failures, either. It is homogeneous. This quality can be used to advantage in the field of applied technology. There should be a "give and take" between Japan and the United States according to each side's special skills.

[VOICE] Certainly, that division of turf did work well, but since 2 or 3 years ago, the United States has become dissatisfied with just collecting royalties on technology. It is trying to withhold technology from Japan in the areas of intellectual property and basic patents.

Makino: The charge that Japan profited by mimicking U.S. technology is utterly false. Everything from transistors to laser equipment such as CD (compact disk) players were developed by nurturing technologies that the United States could not nurture. We picked up and raised to fine adults the technologies that the United States gave birth to and neglected. There is a saying, "A child's parent is one who raised him, not who gave birth to him."

[VOICE] That notwithstanding, the current exasperation being expressed by the United States exceeds the bounds of reason.

Makino: To establish harmony, there should be mutual access not just to factories but to research laboratories as well. Japan has money, so it should pour it into direct investment in the United States and manufacture VLSI (very large-scale integrated circuits). U.S. research organizations should come to Japan, then apply Japan's broad-ranging product development technologies to creating manufactured goods. This mutual access method probably will bring about a new division of technological turf.

[VOICE] Another thing: A characteristic of recent times, as shown most clearly by the FSX issue, is that the United States is shutting off technical exchange with Japan by claiming it is secret military technology.

Makino: The United States certainly is starting to bar Japan from its S&T information. We are a general agent for NTIS (National Technology Information Service), and I can tell that they no longer provide really important information.

The FSX actually could be codeveloped with a "give and take" spirit because there are many areas in which Japan's technology is superior, but the U.S. side is highly suspicious that codevelopment will give Japan the means to steal U.S. stock in the field of state-of-the-art aircraft.

[VOICE] The aerospace field is viewed as the new frontier, especially because the manufacturing of new materials in zero gravity and other industrial uses of outer space have been discovered. However, isn't the United States bent on preventing Japan from entering this field because it considers this sacred territory?

Makino: Whether Japan should advance into that field as well is a difficult question. However, I get the feeling that, to prevent isolation, Japan should leave something to the United States. Certainly, it is obvious that Japan

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24 July 1989

10

would win out if it seriously undertook aircraft or space rocket manufacturing, but it also is true that that would raise U.S. frustrations.

[VOICE] Already the H-2, a domestically produced liquid oxygen and liquid hydrogen rocket, is at the most advanced level in the world.

Makino: That is true, but one way to divide up turf is to give leadership in the aerospace field to the United States, and have Japan provide support through the supplying of parts. Japan and the United States are like a mismatched couple, but although it might be alright to separate, I think it would be much wiser to really look for a way to live together without getting a divorce.

"No More Structural Reforms Are Necessary"

[VOICE] The most practical solution would be for the United States to make the body and put the Stars and Stripes on it, and for Japan to supply the guidance mechanism and the rocket engine. As long as we get the high value-added, important parts, isn't that what counts?

Makino: That's all we need. BUSINESS WEEK says that half the engine of a U.S. car and 80 percent of its IC (integrated circuit chips) and other advanced products soon will be made in Japan. The United States will make the body, the glass, and the design. That sort of strategy for dividing turf can work.

[VOICE] Isn't it necessary to come up with fields where friction with the United States will not occur, such as energy technology to resolve the anticipated shortage of electric power?

Makino: Yes. The energy sector is the showpiece of Japan in the Heisei era, and superconductivity is a promising part of that. The United States also is working earnestly in this field, but 60 percent of its research and development (R&D) funding is for SDI (strategic defense initiative) and nuclear submarine propulsion. Since 100 percent of Japan's funding is applied to civilian uses, it probably will win in the field of peaceful uses.

Technologies of the future are electronics, optics, ceramics and chemical materials (such as organic molecular material), and Japan is superior in many aspects. It already has a surplus in export-import of technology.

[VOICE] However, the international situation is unpredictable, nor do we know how the United States will react. To prepare for any eventuality, I think we have to nurture important technologies from their inception. Certainly, we have many researchers, but the proportion of researchers with doctoral and masters degrees is low compared to the United States and Europe. Also, there are many researchers who graduated from engineering departments, but we have only one-eighth as many researchers from science departments as the United States. So how can we accomplish this when we are so weak in basic research?

Makino: Expanding and raising the quality of basic research is a simple matter, just get rid of bad instructors in the universities. Unlike in the United States, Japanese university instructors are employed for life and their status is guaranteed, so they don't have to produce achievements. The only time an instructor is dismissed is if he lays a hand on a student.

[VOICE] Corporations also have put emphasis on basic research and funding has increased, but research funding for universities and other public research organizations is still small.

Makino: No matter how much more money is infused, or how much the staffing is increased, it will not do any good unless there is a clear sense of win or lose, as in private corporations. In that regard, American universities heap glory on those who excel.

It is not true that funding is scarce. Excluding military research, Japan has led the world for the last 7 or 8 years in percentage of GNP (gross national production) used for research funding. Japan also exceeds the United States by far in percentage of population engaged in research. The problem is not amount of research funding or number of researchers; it is quality, a system to guarantee quality.

[VOICE] How should industry be re-restructured to apply as well as stimulate the development of high technology?

Makino: It would be better not to change industrial structure any further. The ratio of companies in the manufacturing industry should not be reduced any further, nor should company size be further reduced. However, companies should move in the direction of making advancements, such as making steel that does not rust, or plastics with greater functions.

This means that industrial reorganization, not re-restructuring, is needed. The existing pyramid structure of a large enterprise on top with many medium and small companies hanging from it is breaking down and is being replaced by a horizontal network structure. This is the reason for recent successes in Japanese industry.

The other day, I served on the committee for the Kanagawa Prefecture's industrial technology awards, and I was amazed that the first-place winner, "Lasertech," a company that only has about 40 employees, developed a laser microscope that sells for more than 10 million yen per unit. The network was the reason such a small company could achieve such results. A high technology product can be made by getting parts from this company and materials from that firm, and borrowing R&D knowhow from a university. Lasertech says it already has sold 50 units.

The big corporations need to work hard at raising the value-added rate of the manufactured goods they already are producing, not get involved in the leisure industry or in raising eels. Industrial reorganization is needed to

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24 July 1989

11

make full use of Japan's strength, its broad-ranging and mature technologies. That should be the aim of Heisei Japan.

Kobei Kogure: Four Conditions for Experiencing Affluence

[VOICE] How will the lifestyle of the Japanese change in the Heisei era?

Kogure: Japan's per capita GNP exceeded that of the United States and thereby became the highest among the major countries. However, is there a true sense of affluence? On the contrary, there is great dissatisfaction. The one political issue to be resolved in the Heisei era is how the people can experience affluence.

[VOICE] What is the content of this "affluence"?

Kogure: One is to have a career and a workplace to fulfill oneself. When a company becomes affluent, the desire becomes strong, not to survive or make money, but to create a place that allows maximum demonstration of one's own individuality and capability. The second is to improve the housing environment. Skyrocketing land prices are undermining efforts to do this, and without this, it is fundamentally impossible to realize affluence.

The third is to shorten working hours. That is progressing steadily. The last is stability in old age. There still is deep-seated anxiety about that. When these conditions are realized, one can truly experience affluence.

[VOICE] I think that industrial restructuring to ensure affluence will reach a critical point in the Heisei era. The merger of industrial sectors has progressed to such an extent that it is becoming impossible to tell companies apart.

Kogure: Within the company, I have been saying this repeatedly: A shifting of the earth's crust is occurring in the corporate environment. That is, the environment is changing in a way that is qualitatively different from changes that have taken place in the past. Therefore, top-level officials must respond by restructuring their corporations whether they like it or not.

Questions: What are the main causes of this shift in the earth's crust?

Kogure: First is rapid development of the information society. The age is approaching when information will be provided in great quantity and rapidly in response to the needs of each individual, and the information itself will be sold. Moreover, with the advent of communications satellites and broadcast satellites, the flow of information has become global.

Second is the speed and depth of technological innovation. All kinds of technological innovations are occurring in electronics, energy, biotechnology and new materials, and they are interlocked internationally.

Third is rapid internationalization. This is shown in the high value of the yen, but also is spreading to many other areas, such as the agricultural issue and the problem of the new Kansai Airport. Japanese firms also are making rapid inroads abroad.

Fourth is diversification of the needs and preferences of the population as the society matures. If a company becomes complacent because it has a top-class brand-name product, it suddenly finds that its product has become outdated and is no longer selling. A new product can fail unless there is rigorous verification in advance that it truly responds to the needs of people, who have individualistic and diverse values.

Popular trends change constantly and rapidly. To respond to those changes, a company cannot survive unless it adopts bold innovations and management reforms. It is a very tough age.

[VOICE] Then managers must be under tension every day because negligence or idleness cannot be allowed.

Kogure: That is very true. All the top managers are sighing because they have reached the top at such a bad time. The head of a household appliance manufacturer said, "I can never really get a good night's sleep because some morning I'm going to wake up and find that another company has come out with a revolutionary new product that will steal our share of the market." All managers work under a constant sense of fear.

[VOICE] What is Dentsu's image of the future as we face the 21st century?

Kogure: As we face the 21st century, we have drawn up a 5-year plan to predict the situation 5 years hence, and we constantly review it. Since July 1986, our slogan has been CED (communication excellence equals Dentsu). We raised a banner saying that it is our social mission to provide excellent communications services, and we adopted this as our company logo. Some people thought that this was an affectation and that it should be kept as a private doctrine within the company, but it was an idea brought forth from the young people in the company, and it was better to make it a clear slogan.

From around 1985, as business diversified, it became difficult even for company employees to see where the firm was heading. At that point, we put together the knowledge of all our employees, including the young people, and established a CI (corporate identity) which drew an image of the future, and based on that, we have educated our employees and checked on management.

"Home Town Creation" Cannot Be Done With Money Alone

[VOICE] Your goal is to break out of the boundaries of an advertising agent and become an information dissemination base to supply diverse forms of communication that conform to lifestyle changes and to make this a rich and varied society.

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24 July 1989

12

Kogure: Our business territory is total communication services. That is why we are putting emphasis on events, not just advertising in newspapers, magazines and broadcasting. Tens of millions of people go to expositions and exhibits, and by gathering there, they share a common experience. This, too is a splendid form of communication. Musicals also are a type of event, and like sports, they have great appeal and draw top sponsors.

[VOICE] Recently, local governments are vying with each other to hold expositions, but some of them are worthless and a lot of money has been lost. Is it because they did not respond to the diverse and sophisticated needs of the people?

Kogure: It is a huge mistake to assume that people will go to any exposition. When people spend time and money to go somewhere, they expect commensurate excitement and happiness. Events cannot be put together so easily.

An event is bound to fail unless the needs of the populace are understood completely and accurately. In that respect, our goal is to conduct efficient and excellent communication activities.

[VOICE] Prime Minister Takeshita is advocating "home town creation," and has given 100 million yen to cities, towns and villages all over the country to realize the idea of enlivening villages and towns. Under such circumstances, events will be in full bloom. Dentsu must be inundated with requests for consultation.

Kogure: That concept is to be realized through plans made by each city, town and village themselves. Therefore, our local branches are helping, and local newspapers and broadcasting stations also are helping. There are many things that the government offices cannot do by themselves, so I expect that the media, private companies, and communication businesses like Dentsu will join in.

[VOICE] I believe that the "home town creation" theory is to activate the rural areas not just by restoring the wealth of nature, but by merging human life with nature. Isn't there a role that the information industry can play in enriching the natural environment and the urban environment?

Kogure: Today, there is a great deal of urban redevelopment going on in Japan's big cities, and Dentsu is helping. Yokohama will hold an exposition also, but it will be based on a plan for the 21st century, and the exposition grounds and buildings will be used for urban development. Thinking has changed; it is not enough to just build pavilions for an exposition; the idea is to build permanent entertainment facilities or a culturally rich living environment and make the city a place in which people enjoy living.

For farm villages and the rural areas also, it is important that development be based on a plan for the future that keeps alive regional history and characteristics. An accumulation of one-shot projects done in a haphazard

manner is meaningless. To consider each lot separately, build an art museum on a whim, or build something just to spend the 100 million yen that came from the national treasury will not create a home town.

[VOICE] Recently, the phrase "eat, sleep and play" has become popular. Affluent living can no longer be considered without play.

Kogure: Once, some of our young people coined a phrase, "grasshopper-ant." They said that this is the age, not of the ant who only works or of the grasshopper who only plays, but of the "grasshopper-ant" who does both. Apparently there is an American phrase with the same meaning.

[VOICE] Japanese sensibilities have become international. Japanese products probably sell well in the global market, not just because of quality and functionality, but also because they are designed well and are a pleasure to use.

Kogure: Internationalization certainly has progressed in that area as well. Thus Dentsu has coined a phrase, "I am a great navigator," which is our prediction about Japanese lifestyle for this year. Internationalization has extended from the national, to corporate, and now to the level of the populace. Today, Japan is becoming a borderless society, and the Japanese people will go out into the world and discover their own "new world" to suit their own tastes and sense of values. I cannot help but feel that such an age is beginning.

In conclusion: Takeshi Inagaki on the Pliant Goals of the New Culture

The name "Heisei" contains no sense of ambition or even vigor. But without national goals, aspirations, strategies, or scenarios for the future, Japan can only flounder no matter how great a superpower it becomes.

Among the advanced countries, prewar Japan was second-rate in terms of economic and technological capability, but its national goals were grandiose and it spouted megalomaniacal slogans about universal brotherhood and the Greater East Asia Coprosperity Sphere. It is an irony of history that now that Japan has reached the highest economic and technological levels in the world, its national goals are unclear and it does not seem to have any aspirations.

Actually, empty boasts are made because real power is lacking, whereas real power brings the luxury to take a gentler posture. An individual or a nation that relies on its power and becomes an oppressor and a braggart is detestable.

Therefore, Mr Iida's assertion that Heisei Japan should be modest and inconspicuous is correct. At the same time, if one sees the world only from a height of 150 centimeters, like the prime minister of some country, one will not be able to see the nation's goals.

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FBIS-EAS-89-140-S
24 July 1989

13

Japan has become an advanced country very suddenly, and various elements of an undeveloped country still remain within its internal structure. These include Japanese politics and higher education.

To reform Japanese politics, the situation in which elections cost too much money has to be rectified. To do that effectively, in addition to calling to question the responsibility of politicians, the voters' opportunistic tendency to expect payment at every turn must be changed. In that sense, the opinion of Mr Ishihara that penalties also should be established for voters deserves serious consideration.

As asserted by Mr Makino, Japanese higher education, especially S&T research by the universities, should be permeated with the principle of real achievements as in the United States and Europe. If the structure based on indulgence is left as is, we cannot hope for progress or development of basic research no matter how much research funding is increased.

The present height of Japan's economic and technological power is the result of the all-out efforts of individual companies. It was brought about through harsh principles of competition, and we must not forget that it is in that type of arena where Japanese capability is demonstrated to its fullest extent.

Competition in the international arena is as harsh as in the domestic arena, but it is a competition not only of power, but also, as Mr Yano says, a competition of cultures. Japan, which has begun to build a new superior culture, has unintentionally created friction at every turn with the traditional European and American culture. This friction probably will expand and deepen in the future.

Victory or defeat will be decided by which culture holds greater future happiness for mankind. Happiness is not just enough food and clothing to guarantee peace; it is also the ability to provide a varied and individualistic life. The model for this will be the society created by Japan, the flagbearer of the new dynamic culture.

As delineated by Mr Kogure, Japan's goal should be to create a society which is at one with nature and which, through the use of its wealth of intellectual resources and cultural facilities, gives free rein to each person's individuality. When that sort of lifestyle is established, it will have a universality that can be accepted by the world, and it will transcend national barriers and permeate other societies.

We must have confidence in the new culture which is being built now, and go forward with it. To achieve this will require high aspirations and a capacity to deal flexibly with circumstances.

In international politics as well, we must change the way Japan has lived in peace under the "Pax Americana." We must acquire self-reliance in order to build an international order with a new paradigm. If done hastily,

it will cause tremendous friction and conflict, and it will fail. Persistent, steady efforts probably will be necessary.

Instead of vacillating between arrogance and servility like the Japanese of the past, each Japanese now must take firm hold of his identity as a Japanese and hold "pliant aspirations" to achieve the lofty goal of happiness for all mankind. Isn't that the true goal for Heisei Japan?

* Changes in International Economic Order Examined

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[Article by Rikkyo University Prof Seiichiro Saito]

[Text] Japan as a capital and financial giant has now attained the status of a semisuperpower. For all that, will Japan be able to replace the weakened United States and assume a true leading role in international society? What follows is an exposition of the scenario governing Japanese-U.S. relations as they enter a new phase. I. International Economic System Entering Act Two

Now Is a Period of "Calm Between the Acts"

The international economic system, which has been undergoing rapid adjustment of exchange rates since the "Plaza Accord" of the fall of 1985, now appears to be facing a "crossroads" or "turning point."

In fact, lately there have been some noticeable signs of change on the international exchanges. Specifically, the dollar has demonstrated upward spurts on several occasions since the middle of last year: its upswing following the Toronto summit of mid-June 1988, its steady firmness during the period of mid-December of last year through early February of this year until the time U.S. President Bush delivered his message on the revised budget bill, and its upturn once again in the middle of last March are the cases in point.

These upward moves by the dollar have led to a heightened sense of alarm among the financial authorities of countries such as West Germany and Japan who view them as inflationary. As a result and with the business conditions worldwide on an expansionary track, there is the spreading threat of a scramble to raise interest rates by various countries. Of course, such upward moves by the dollar have by no means become a set pattern on the exchange market. On the contrary, given the stubbornly persistent "twin deficits" of the United States, there is a strong probability that the dollar rate will continue to fall in anticipation of further weakening of the dollar. This does not mean, however, that the dollar will continue its precipitous decline of the past 3 years; rather, the prospect is for a more gradual decline accompanied by repeated ups and downs. In short, it is clearly discernible that the dollar's steadfast downward trend since the fall of 1985 has come to a "turning point."

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FBIS-EAS-89-140-S
24 July 1989

14

In this connection, the yen's annual rate of increase (on the basis of the closing values on the first and last day of the year) against the dollar since 1985 figures out to be 25.85 percent (from 252.55 yen to 200.60 yen) in 1985, 26.3 percent (from 202.30 yen to 160.10 yen) in 1986, and 30 percent (from 158.65 yen to 122.00 yen) in 1987, testifying to the magnitude of the storm of the rising yen (falling dollar) that raged over the exchange market.

But in 1988 the picture changed on the exchange market: the yen rate slid downward by 3.3 percent (from 121.65 yen to 125.90 yen). And this year the yen rate, which opened at a high of 124.05 yen at the beginning of the year, weakened further to 130.40 yen in early February and to about 132 yen by the middle of March. Since then it has remained within a narrow range of fluctuation around 128 yen plus or minus 4 yen (1 February through 20 March).

At any rate, although ups and downs are the norm in exchange rates, the process of steadfast decline of the dollar has ceased to be a trend. The question then is: Can the slowdown in the exchange fluctuations at this point be regarded as the result of sufficient progress achieved in the correction of international economic imbalances, especially the imbalance between Japan and the United States?

It is this question which I will proceed to discuss in this article. To begin with, if I may liken the process of changes affecting the international economic system since the "Plaza Accord" of September 1985 to a stormy drama, it is my view that now, finally, the opening act of the drama is coming to an end. And this basically is the background for the narrowing trend in the range of exchange fluctuations which I mentioned earlier.

Nevertheless, the present stage does not constitute a restoration of stability in the international economic system. For there is coming to the fore a factor—call it a storm cloud or a live coal—that is threatening to change the shape of the existing system anchored to the dollar. In a manner of speaking, right now is the "intermission" or "the calm before the storm," waiting for the curtain to rise for the second act of the drama involving the international economic system. The question is: When will the "calm" be broken?

Unstoppable Decline of U.S. Power

Now with the "first act of the stormy drama," rocked by the precipitous adjustment of exchange rates during these past 3 years, having come to an end, what would be the live coal that would destabilize the international economic system in the days ahead? This question will shape the motif for the second act of the drama.

As the primary causes for the destabilization of the international economic system in the future, I am inclined to cite two items: the "U.S. factor" and the "Japan factor." These two factors will have a symbiotic bearing on the future of the international economic system—one as the negative and the other as the positive, so to speak.

The "U.S. factor" is the "twin deficits," the culprit being commonly fingered by many critics. It is evident that this factor is causing constant unrest in the existing dollar-based international economic and financial systems.

But contrary to the view held by pessimistic observers, the "twin deficits" and external imbalances of the United States, are not headed from bad to worse. Rather, considerable improvement has been achieved in these areas during the past 3 years, creating the basis for the relative upswing or stabilization of the dollar rate as noted earlier.

Despite such improvement, however, the United States is still saddled with a federal budget deficit of some \$150 billion and a trade deficit of some \$130 billion on an annual basis. Consequently, the prevailing view on the market is that the resolution of the stubborn "twin deficits" will require something more than a halfway measure. Some economists go so far as to say that dramatic, drastic measures, such as induced stagflation through a large tax increase and a further sharp devaluation of the dollar, are indispensable for the resolution of the "twin deficits." But in reality such drastic measures cannot be adopted in view of their potential risk leading to a stock market crash or an international financial crisis.

Thus, one might say that the stubborn presence of the "twin deficits" is having the effect of slowly tearing down the foundations of the existing dollar-based international economic system from within. This is so because as long as the "twin deficits" continue to exist the United States will have to finance itself with vast sums of money from external sources on a continuing basis, and any snag in such external financing would add pressure for higher interest rates within the country, making precipitous declines in stock prices and wild fluctuations in exchange rates a rule rather than an exception. Should this happen, the international economic system will be thrust into a state of restlessness, leading to the stagnation of international economies and financial transactions.

Is Japan's High-Power Status a Destabilizing Factor?

One of the causes for the destabilization of the existing international economic system is the U.S. factor—the "twin deficits." Another factor, which is in reverse and obverse (negative and positive) relation to the first, is the "Japan factor." The term "Japan factor" refers to the fact that economically Japan is now a new superpower with global influence, making it a giant presence on the international scene—a presence which it can neither disclaim nor conceal.

At the start of this year, (3 January) the British paper FINANCIAL TIMES carried an editorial which stated as follows:

"At present the world has one real superpower (the United States) and two semisuperpowers, the Soviet

FBIS-EAS-89-140-S
24 July 1989

15

Union (militarily) and Japan (economically). For Japan, even while pressing for a domestic consensus on the question of free trade, it will still need to look for investment opportunities worldwide. Further, Japan ought to play a definitive role with regard to the Third World's debt issue as well. (passage omitted) [in original source] For the long term it seems unlikely that the United States will be able to sustain its power without the benefit of capital from Japan, West Germany, and Taiwan."

Today Japan is an economic giant on a global scale as well as a major creditor nation; as such, in line with its status as a semisuperpower, it needs to bear an axiomatic responsibility for global issues. Especially if the resolution of the "twin deficits" cannot be expected soon, Japan's economic power will be indispensable in resuscitating the international economic system that has begun to crumble and in preserving the system's stability.

In short, as the British paper FINANCIAL TIMES stated clearly in its New Year's editorial, Japan as a global power is now expected, if nothing else, to make a maximum contribution toward stabilization and development of the world economy. Viewed in this context of the international economic system, Japan's economic power is positive in contrast to the negative economic power of the United States. But Japan's global power, which in itself should be positive, is in reality proving to be a destabilizing factor for the present international economic system.

The reason for this is that Japan, as was so aptly pointed out in the FINANCIAL TIMES editorial, is not a real superpower but a semisuperpower (half a superpower) lacking the vision and capacity to lead the international system. Consequently, although Japan has attained a global high-power status, it is still very uncertain as to what specific role Japan will merit in the decisionmaking process of the international economic system.

In this sense, the possibility cannot be ruled out that Japan's protrusion onto the global stage may prove to be a destabilizing factor insofar as the international economic system is concerned. Meanwhile, the declining power of the United States with no prospect of an early recovery is a matter of concern in that it could continue to have a negative impact on the international economic system. This then is the setting for the second act of the drama involving the international economic system. To be more precise, the second act is likely to be governed by a "stormy scenario"—more so than the first act—because the international economic system in the eighties will be marked by a three-cornered contest involving the United States on the wane, a thriving Japan whose international role continues to remain murky, and the integrating EC whose move toward self-fortification is worrisome.

From Exchange Adjustments to Regime Reform

The external imbalances of the United States with Japan and West Germany were brought about in the first half of the eighties under the Reagan administration. The

resulting thought was that the way to eliminate these imbalances was to correct the overvalued dollar by adjusting the exchange rates in the direction of lowering the dollar's value or raising the values of the West German mark and Japanese yen. Accordingly, since the fall of 1985, as a result of the cooperative efforts toward that end by Group of Seven [G-7] under the leadership of then U.S. Secretary of Treasury J. Baker, the yen-dollar rate has risen twofold [as published] (or has fallen that much from the dollar's standpoint)—from the level of 240 yen to \$1 to the level of 120-130 yen to \$1. It has truly been a stormy drama of exchange adjustment.

Having come through a long tunnel, what has this 3 years of drastic exchange adjustment really accomplished? For sure, as noted earlier, the exchange rates have been adjusted sufficiently and the dollar's one-sided slide has ended. In other words, the exchange adjustment has, for the present, paused—at least the storm has passed.

For all that, the problem of international imbalances has yet to be resolved. What has come to a breather is only the matter of adjusting exchange rates. Moreover, in the end, even this drastic adjustment of exchange rates has turned out to be the cause of a potentially troublesome problem for the future course of the international economic system. This constitutes a "live coal" or a "storm cloud" for the future of the international economic system.

The reason for the above observation is that the controversial exchange adjustment of the past 3 years has thoroughly exposed two "facts" to the entire world. One is the "fact" that the U.S. problem of external imbalances is extremely difficult to solve—even with a drastic devaluation of the dollar. This fact, in effect, renders supporting evidence to the proposition that the U.S. economic power and competitive strength cannot be restored or reinvigorated through such means as international cooperation and adjustment of exchange rates. In short, it means that the declining power of the U.S. economy seems "unstoppable." If this is the case, then we need at this point to redefine our assessment of the U.S. economy with some sense of "abandonment"—a sense that, although the "twin deficits" will no doubt improve, it may very well be unrealistic to expect the United States to free itself completely from the red ink and to regain its "strength of bygone years." All this has a significant implication. For it means that the present dollar-based international economic system will, beyond the shadow of doubt, gradually lapse into a state of paresis.

Another "fact" is the fading away of the United States as exposed by the exchange adjustment of the past 3 years; meanwhile, this same process has led to Japan's sudden emergence as the key player with responsibility for the international economic system, and has made Japan a superpower with the greatest financial strength. Literally Japan "woke up to find itself having become a giant creditor nation."

FBIS-EAS-89-140-S
24 July 1989

16

Consequently the international economic system is now faced with a completely new kind of politics. It is power politics played out on the international political and economic stage, involving one positive factor and one negative factor; the former being the prominence of Japan with newly acquired economic power, and the latter being the United States with its existing pivotal power on the wane. It is fair to say that this constitutes an agenda item for the discussion of a shift in the international economic system that has prevailed since the Bretton Woods Agreement of 1944.

Today, with the relative relations in international economic powers clearly changing around Japan and the United States, a new regime (structure) pegged to the new power shift must be built in order to enable the international economic system to remain functional. Hence, the motif for the second act of the drama is not exchange adjustment but rather reform of the system. Who will take the initiative for this reform? Will the principal player of the second act continue to be the United States, or will it be Japan? What will be the regimen for the new international economic system?

II. Is the United States Wounded From Head to Toe?

Friedman's Paradox

There is no denying the declining power of the U.S. economy. Especially with the nation that owns the key currency for the international economic system put in a position of relying on funds from foreign countries such as Japan, it becomes evident that the U.S. economy has begun a steep slide. This is why at present with the international economic system lacking its principal anchor, exchange rates, interest rates, and stock prices continue in a state of constant flux. The international financial scene is now in a "major interregnum," so to speak.

But there is also an argument that disputes the above view, insisting that the U.S. economic imbalances will be resolved in due course—that they are absolutely not in a critical situation, and that the United States is still the only anchor for the international economic system. At the forefront of this argument are former President Reagan and the Bush administration. A theory that the U.S. economy is in robust health is being held tenaciously by some economists of the conservative school as well.

The leader of this bullish argument unquestionably is M. Friedman, the grand master of the Chicago School. In an essay entitled "Why Are the Twin Deficits a Blessing?" which he contributed to the 14 December 1988 issue of THE WALL STREET JOURNAL, Friedman expressed a uniquely paradoxical view that the so-called twin deficits argument is nothing more than a "scarecrow" which is unworthy of serious attention.

According to Friedman, it is nonsense to lump the United States with such debt-laden countries as Brazil,

Mexico, and Argentina just because the United is borrowing money from Japan. For, he says, the money the United States borrows is used to finance profitable business investments. Furthermore, he points out, to protect itself against exchange risks the United States is borrowing money from foreign countries in dollar terms—its own currency.

Proceeding, M. Friedman demurs: "When Japanese themselves are finding it more attractive to invest in the United States than in Japan, it is a mystery to me why Japanese investments in the United States are taken as evidence of U.S. weakness and Japanese strength." In his haughty conclusion he says: "The United States is indeed strong as evidenced by the fact that Japanese investors are putting their money there."

For sure Friedman's argument is extreme in some respects, but that it is persuasive in some other respects is also true. To say "borrowing is no good" clearly is a simplistic argument in the genre as an unsophisticated sermon. In my case, I use the following analogy from time to time—it is based on a comparison of Toyota Motor Corp. and Matsushita Electric Industrial Co. with Hitachi, Ltd.

As is well known, Toyota and Matsushita are noted for being companies without debt. What about Hitachi? It has a debt of some 200 billion yen, which is about 7 percent of its gross sales (roughly 3 trillion yen) and about 1.5 times the size of its recurring profit (130 billion yen). Still, just because Hitachi has a debt, one cannot jump to the conclusion that it is operationally in bad shape—actually the company has no such problem.

Likewise, the United States' having become a debtor nation is simply no different from Toyota's financial status having changed to that of Hitachi's. The net external debt of the United States is equivalent to about 10 percent of its GNP; this ratio, when compared to Mexico's 80-plus percent and Brazil's 40-plus percent, is far "healthier." Hence one cannot make a sweeping statement that as a result of the "twin deficits" the power of the United States has weakened within the international economic system and that the United States has relinquished its position of leadership in that system.

Budgetary Deficit Reduction Is Possible!

"The United States is truly stronger than Japan!"—this powerful "revelation" by Professor Friedman proved to be an unequalled Christmas present to those in the Bush camp, who were then in a state of melancholia due to the wholesale dumping of the dollar following Bush's election. For Friedman's essay in THE WALL STREET JOURNAL had the salutary effect of changing the pessimistic tone of the market. In other words, thanks in part to Friedman's paradox, the market thinking began to take stock of the Bush administration's ability to reduce the budget deficit.

In mid-December of last year, the dollar rallied and strengthened its power. Looking back, the problem of the

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24 July 1989

17

federal budget deficit has been moving, albeit slowly, in the direction of improvement. Figured in percentage of the GNP, the deficit has been declining from 5.03 percent in fiscal 1986 to 3.37 percent in fiscal 1987 to 3.2 percent in fiscal 1988. If it goes below the 2 percent level, the budget deficit will cease to be an encumbrance to the U.S. economy.

The question is whether the "flexible freeze" approach with its emphasis on spending restraint, as advocated by the Bush administration during the election campaign, would achieve the intended goals in improving the government's financial situation. It is on this point that the market and the Democratic-controlled Congress have a strong sense of distrust. But, contrary to the commonly held view, I for one believe that there is no need to be overly pessimistic as far as the U.S. Government's ability to ameliorate its budget deficit problem is concerned.

I hold this view because, although the budget deficit level President Bush has set for fiscal 1990 is \$94.8 billion, if the Bush administration, instead of clinging to the Reagan-style "No Tax Increase" ideology, moved boldly toward a tax increase measure, focused primarily on gasoline tax, as the next best policy—a move being advocated by Federal Reserve Board Chairman Greenspan, I believe it would be a relatively simple matter to reduce the deficit drastically.

In other words, it is fair to say that the Bush administration still has the gasoline tax as its "last resort" measure. In this connection, one needs only to recall that even former President Reagan, noted for his adherence to ideology and principles, paved the way for the "Plaza Accord" in the fall of 1985 and, in so doing, abandoned his principle of nonintervention of the exchange market. Thus, it would not be incomprehensible if President Bush, a realist, were to give a "go" signal to the raising of the gasoline tax at the eleventh hour. Moreover, by going the gasoline tax route, he can even "dodge" the issue by saying that the measure has no direct bearing on changing the tax structure itself.

When so viewed, it is a superficial approach to be overly wedded to the need for reducing the budget deficit and to spout pessimistic remarks regarding this issue. Furthermore, as M. Friedman points out, having a budget deficit at a certain level even serves the purpose of applying the brakes on the expansionary tendency of fiscal outlays in a democratic system.

Return to the "Strength of Yesteryear" Is Hopeless

According to a commonly held view, the U.S. economy is now deeply wounded from head to toe. Many may, therefore, brush off Friedman's bullish argument noted earlier, or the argument that the budget deficit can be improved as a rosy scenario based on a bias peculiar to the conservative school.

I, too, am not entirely in accord with such an optimistic scenario; all I wish to stress at this point is that the fatal

problem of the U.S. economy is not the budget deficit, which is being commonly cited as such.

Incidentally I also do not share the view that the U.S. economy is now wounded all over. But I do believe that the U.S. economy is already losing its "vitality of yesteryear." Accordingly, as things stand now, I believe it will be difficult for the United States to remain as the anchor of the international economic system in the days ahead.

The question then is, "Will it be impossible for the United States to restore its economic strength and bring the international economic system back to life?" If resolving the budget deficit problem were the key to restoring the U.S. economy, this would not, as pointed out earlier, be an impossible task. But, the truth is, the budget deficit is not the fatal problem which the U.S. economy is saddled with.

What is the fatal problem, then? Essentially, I believe, it is twofold. One is the extremely low rate of savings in the United States, which compels the United States to continue to rely on foreign capital. Looking at it another way, this problem of insufficient savings means that the current account balance of the United States will continue to be in the red.

According to Professor L. Somers of Harvard University, recent statistics on the U.S. economy show that its net private savings rate is 4.8 percent (in GNP terms; the same applies to other percentages cited hereafter) and its budget deficit is slightly more than 3 percent; this means that the net national savings rate is only about 1.8 percent. Consequently, in order to sustain investments at about a 4-5 percent level, the United States will necessarily have to rely on foreign capital. In the absence of an effective method of raising the savings rate, the United States will have to reduce either the budget deficit or domestic investments in order to free itself from excessive reliance on foreign capital. But even if the budget deficit heads for a gradual decline, the reliance on foreign capital will not be ameliorated so long as the level of domestic investments remains steady. The implication of this is that the United States will begin to suffer more and more from the effect of accumulating foreign debts.

Restraining domestic investments is not a wise move either because, as I will elaborate on later, it will delay the process of reforming U.S. industries. Thus, in order to maintain a high investment level so as to strengthen the competitiveness of its industries, the United States cannot help but rely on foreign capital. It is clear from this observation that the low rate of savings is making it difficult for the U.S. economy to free itself from a reliance on foreign capital. Such dependence on foreign capital tends to destabilize the U.S. financial system. One wonders whether the U.S. economy has been in this position since the end of the war, or at any time during the past 70 years, for that matter. The situation is something more than one can afford to cheer about as "evidence of U.S. strength" as M. Friedman believes.

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FBIS-EAS-89-140-S
24 July 1989

18

Another fatal problem for the U.S. economy is that the competitiveness of its industries is unmistakably declining. Since the first oil crisis the industrial scenes worldwide have been awash with new technologies centered around information technology. This has prompted enterprises to make innovative investments, leading to further structural sophistication of industries.

But the United States has lagged behind this megatrend toward industrial sophistication. The reason for this is that during the first half of the 1980's the Reagan administration resorted to a strong-dollar strategy and promoted further development of its economy in the direction of service. Consequently, the R&D efforts and production systems for sophisticated industrial products have disappeared from the domestic scene and the United States has become completely dependent on foreign countries for the parts for sophisticated industrial products, not to mention home electronics.

So began the process of falling away by U.S. industries, especially the manufacturing industry, from the trend of industrial sophistication. The United States had failed to realize that achieving a high-degree of sophistication in industrial capacity was prerequisite to a successful move toward service sophistication. It had simply fallen victim to an illusion that the development of military technology would inevitably lead to the development of sophisticated industrial technologies. In reality, however, such excessive prioritization of military technology coupled with an attitude of negligence toward the private-sector industrial capacity has proven to be the very cause of the crippling of U.S. industries.

In terms of keeping up with the latest industrial changes, both quantitative and qualitative, and of the capacity to supply consumer-oriented sophisticated products, there is no denying today that U.S. industries are inferior. This is a reason for the growing sense of mistrust regarding the qualifications and ability of the United States to take charge of the international economic system.

III. Can Japan Assume the Leading Role?

Is Japan's Strength Real?

Should these fatal problems preclude the United States from exercising its "power of yesteryear," the instability of the international economic system will inevitably grow. And sooner or later the question of framing a new international economic regime will become a major international issue. It is in this connection that Japan's economic power, which is strengthening in contrast to that of the United States, is becoming the focus of attention.

Is Japan's strength real in the final analysis? For sure, statistically, Japan's economic power is enormous. Japan's per capita GNP has exceeded that of the United States and is in fact the highest in the world; Japan is the world's largest creditor nation as well. Moreover, the total current value of stocks traded at the Tokyo market

has now exceeded the 500 trillion yen mark, which accounts for more than a 40-percent share of all major stock markets of the world.

Furthermore, an amazing fact is that as of the end of 1987 the value of Japan's land assets was 1,637 trillion yen, four times the value of land assets (about 400 trillion yen) in the United States.

For one reason or another, most of this numerical expansion of the Japanese economy has occurred at a stretch during these past few years. In a way, it has the appearance of a kind of "getting-rich-quick phenomenon" generated in the course of the precipitous appreciation of the yen and decline of the dollar since the fall of 1985. With the skyrocketing yen coupled with extraordinary relaxation of monetary conditions, enormous sums of money poured into land and stock markets, resulting in a dramatic rise in the land and stock prices.

Japan's assets suddenly became bloated. Moreover, as a result of a twofold rise in the yen rate during the past 3 years, when figured in dollar terms the statistical values of Japan's assets and earnings expand extraordinarily. For foreigners as well as for the Japanese it is hard to believe all at once that such transformation of Japan's economic power into a colossal status is something corporeal.

Everyone therefore saw the sudden bulging of Japan's economic power as a "bubble phenomenon." In other words, the consensus was that, like a soap bubble that eventually bursts, the sudden expansion of the Japanese economy, too, was destined to be an ephemeral "bubble phenomenon."

Considering that it was logical to assume that a sharp rise in the yen's value would drive the Japanese economy into a deep depression, it is understandable why so many people thought the economy's sudden expansion was nothing more than a "blister." In reality, however, the effect of the super-strong yen on the Japanese economy has been the exact opposite of what people had expected.

In short, although, on the one hand, the dramatic rise in the yen's value has had a "bubble effect" on the value of assets, on the other hand, it has spurred enterprises to strive for bold management reform, greater efficiency, investment expansion, and more aggressive R&D [research and development] efforts. For these enterprises realized that without making such bold moves to overhaul their management it would be very difficult for them to survive under the sharply rising yen.

The twofold rise in the yen's value means that in international terms Japan's domestic labor cost has doubled in comparison with other countries. Consequently, in order to survive Japan's domestic manufacturers of export products must reduce by half the production labor cost at their domestic plants.

This is a task impossible to achieve through such ordinary measures as rationalization and TQC [total quality

FBIS-EAS-89-140-S
24 July 1989

19

control]. Yet Japanese enterprises have successfully carried out this ascetic task. How did they do it? Matsushita Electric, for example, did it by completely changing the design for some of its products. It worked because the design change led to greater efficiency in the production line, making it possible to cut down the labor cost. Moreover, such an extensive change to the production process required new investment in plant and equipment; it also called for a whole new set of raw materials.

Such supply-side reform was boldly carried out under favorable conditions generated by the rising yen such as monetary relaxation and declining prices of raw materials. That these managerial and operational reforms achieved remarkable progress was due to a strong awareness on the part of both the management and the labor of the critical nature of the situation being created by the skyrocketing yen. As a result, before people realized what was happening, the Japanese manufacturing industry has shed its thin surface veneer to reveal its intrinsic steeliness.

Without exaggeration, what has emerged may be looked at as the "world's strongest industrial power." Thus, what some thought was a mirage-like bubble phenomenon has been made real by the "maximization of the industrial power" under the rising yen. In other words, the swollen "blister" has been given a new tougher lining in the form of superindustrialization which was achieved through diligence and sweat. What all this means is that during these past 3 years, under the skyrocketing yen, Japan has gained unexpectedly stable and solid economic strength.

"Japan Money" Flooding the World

A while ago American financial analyst H. Kaufman made the following remarks:

"When one compares Japanese money with the OPEC's oil money, one cannot help but feel the strength underlying the former. Yet, although the oil money is backed by something visible known as oil resources, the resources from which the Japanese money is produced are invisible—invisible because they are made up of such things as technology, diligence, and group decisionmaking. The Japanese money is something born out of nothing; its strength one feels is therefore unfathomable."

As noted earlier, Japanese money is no longer a mere bubble; it is backed by industrial power which may very well be the strongest in the world. Hence, the title "the world's largest creditor nation" is pregnant with a very significant international potential.

Also as pointed out earlier, the United States is in a situation where, because of its low rate of savings, it has no choice but to continue to rely on foreign capital; what is almost singlehandedly taking care of U.S. financial needs is Japanese money.

To be sure, as M. Friedman is saying, such dependence on Japanese money by the United States is attributable to the

foreign investment preferences on the part of Japanese investors; in this sense, it may not be a matter of concern. Nevertheless, Wall Street is very nervous about the ebb and flow of Japanese money; the chronic mood there these days is one of alternating hope and fear.

After all, for the United States, a proud superpower, the realization that its financial market is beginning to be controlled by foreign capital is "unpleasant" and "irritating" enough to make it fret and fume. The sense of humiliation the borrower feels toward the lender is a rule applicable to all times and places—East and West, past and present.

Meanwhile, the problem attendant to the outstanding loan balance, now amounting to \$1.3 trillion, owed by those debt-ridden nations has now become an ever present "time bomb" on the international financial scene. But solving this problem is no longer within the capability of the United States, which is rapidly and progressively turning into a debtor nation itself. Consequently, the eyes of the world naturally are now focusing on Japan as the country that should take the initiative toward solving this problem.

Having unexpectedly become the world's largest creditor nation, Japan—whether it likes it or not—is now expected by the entire world to exercise its global power; at the same time, Japan's global power, because of its sudden prominence, is being viewed with a sense of wariness. In the course of the yen's rise that began in the fall of 1985, the tone of the press in the United States has been somewhat different from that in the United Kingdom. In the United States, the strengthening of the yen's value was considered as a tool with which to pummel Japan's excessive export power; in the United Kingdom, however, an argument on the theme of "Beware of the Rising Yen" has surfaced from time to time.

Based on the long experience of the British Empire, the British were aware that a strong currency is the fountainhead of global economic supremacy and leadership. In other words, they sensed that as the yen grew stronger Japan's economic power will sooner or later begin to flood the world not in the form of goods called exports but in the form of influence known as capital. It is only now that the United States has become wise to, and is beginning to harbor a sense of wariness against, the worldwide reach and globalization trend of Japan's economic power.

In point of fact, at first Japanese money moved rather timidly into the United States in the form of investments in securities such as U.S. Government bonds; since then, however, it has gradually emboldened its investment moves into areas such as M&A (mergers and acquisitions) and production activities in the host country—moves with global deployment of operational resources in mind.

Recently (23 January 1989) the British paper FINANCIAL TIMES had this to say: "As a means to reduce

FRIS-EAS-79-140-S
24 July 1989

20

Japan's trade surplus the exchange rate is already becoming meaningless. The focus is shifting to M&A. M&A specialists have begun to approach Japanese corporations with a pitch that now is the time for them to acquire foreign enterprises using the strong yen."

Idiosyncrasy of Japan the International State

Japanese money, backed by the world's strongest industrial power, is now in the global limelight as the "mighty yen," but the problem is that Japan's powerful presence does not sit well with the existing international system. If the globalization of Japan's economic power were to project itself in the direction of bulging exports, the resulting problem would be confined to one of quantity. But if it takes the form of M&A and direct production investments overseas, it will bring to the focus a qualitative issue concerning the power of influence lurking behind the capital. In short, it is a problem of a clash between different cultures.

In a way, this is the kind of problem that was the classic theme of a ballad written by the English poet R. Kipling, who wrote: "Oh, East is East, and West is West, and never the twain shall meet...." In the case of Japan, the problem may be broken down roughly into the following three points:

The first point is that Japan's corporate or business culture—its socioeconomic setup—is quite different in nature from the Anglo-American culture which has been considered as the standard for the world over nearly 2 centuries thus far.

The second point is that Japan, while possessing economic power on a global scale, lacks the kind of global political ideology held by the United Kingdom, once a dominant power, or the United States, the dominant power of today. Furthermore, as was pointed out by the FINANCIAL TIMES, Japan is a semisuperpower lacking military strength, making its status an ambiguous one.

The third point is that, although at present the United States is the anchor of the international economic system and the U.S. dollar the key currency, as dark clouds begin to cast shadows on the pivotal power of the United States, the it is beginning to show signs of wariness about losing its vested interests attendant to the dollar as the world currency.

Perhaps it is difficult for other countries not only to comprehend but also to accept a "Japan power" that is devoid of a clear-cut idea regarding global management, and yet aspires to achieve globalization by following a peculiar behavioral pattern of its own. This is why, even though Japan power has come to the fore in place of the ebbing economic power of the United States. Japan cannot immediately become the pivotal player in reforming the international economic system.

As a matter of fact, at the IMF-World Bank general meeting held last fall, Bank of Japan President Sumida proposed to make the yen an international currency, but

the proposal was ignored by the United States and nearly all other advanced nations. Likewise, Finance Minister Miyazawa's proposal concerning the problem of mounting debts ran into bitter criticism from the U.S. side. Although Japan, on its own initiative, is trying to move toward the building of a new regime for the international economy, the international community has yet to sound a call beckoning Japan to assume the leading role.

IV. Can the United States Win Japan Over?

Leadership To Remain With the United States

As noted above, the drama involving the international economic system has come to the end of its stormy first act and is now in a state of "calm" before the second act begins. Having been subjected to a 3-year adjustment of foreign exchange rates, the international economic system now faces the main task of reform. It is not clear yet as to who—the United States, Japan, or the EC—will assume the leading role in this reform.

But, come to think of it, with the 1992 integration ahead of its markets and having to concentrate its energy on achieving harmony within its own region, the EC will instinctively try to avoid making any commitment on a global dimension. Thus, the politics surrounding the second act of the drama involving the international economic system will be played out between the United States and Japan.

In that event, when all is said and done, it will still be the United States that will take the initiative in carrying out this reform of the economic system. It is so because, although economically Japan is a superpower-like entity with its financial and industrial prowess second to none, Japan's presence and behavioral pattern still lack universality, as was noted earlier. Moreover, it is essential for any country aspiring to be the central force in the international economic system to have an ideology like, say, the liberalism of the United States, but Japan, whose sole aim from the Meiji era up until very recently has been to catch up with the West, has no such ideology ready with which to lead the world.

This being the situation, the United States has no choice but to take leadership in the matter of reforming or renovating the international economic system in order to ensure its functional recovery. The United States may choose from the following options: 1) to attempt its recovery on its own; 2) to ally itself with the EC; 3) to attempt to form a North American Economic Zone using the trade agreement with Canada as the basis; or 4) to win Japan over to its side. Of these choices, the second option has little possibility and the third is anything but a powerful move.

That means the United States will probably end up choosing either the first option, i.e., to attempt its recovery on its own, or the fourth option, i.e., to win Japan over to its side. In that event, the fate of the first option will depend on whether or not the United States can overcome its fatal problems noted earlier—the

FBIS-EAS-89-140-S
24 July 1989

21

"excessive reliance on foreign capital" and the "deficiency in sophisticated industrial capacity."

Since the fall of 1985 Baker's cheap-dollar strategy has sought to boost the competitiveness of U.S. industries and to reduce external imbalances by rejuvenating U.S. exports. This strategy has succeeded to a degree but has also proved the inevitability of having to lower the dollar's value even further if a sharp reduction of the mammoth trade deficit is to be achieved; in terms of seeking such drastic—more drastic than it has been—depreciation of the dollar, the strategy is now at an impasse.

The cheap-dollar policy is at an impasse because making it any more blatant would be inflationary; it is also feared that such a move could lead the dollar to a nosedive. Harvard Professor M. Feldstein has been an outspoken, constant advocate of the need to bring the dollar down to the 100 yen level within 2-3 years. Speaking strictly based on a paper calculation, restoring the U.S. economy by means of exchange adjustment would require a 40-percent depreciation of the dollar rate in the next 5 years to bring it down to the \$1:80-70 yen level. This would eliminate the U.S. trade deficit.

But any policy leading to a 40 percent, or so, decline in the value of the dollar in 5 years would not be a realistic one. For it will not only accelerate inflation but also risk the danger of plummeting dollars and soaring interest rates. It is a scenario for a hard landing.

Symbiotic Structure of the Japanese and U.S. Economies

The above observation leads to the conclusion that the only option available for the United States is the fourth one, i.e., to win Japan over to its side. Furthermore, a close examination—from the standpoint of the stability of the international economic system—of the characteristics of the United States and Japan reveals that the economies of the two countries are complementary.

The United States has now become unable to maintain its status as a pivotal-power on its own for two reasons. One is its "insufficient savings," the other is its "weakened competitiveness." These two factors are intertwined. "Savings" institutions use money for investments, and this leads to the "strengthening of industrial competitiveness." Herein lies the incentive for the United States to win Japan over to its side or, shall we say, to get Japan involved with it.

In other words, by having Japan on its side, the United States will be able to have steady and stable access to Japan's "savings"; additionally, by enticing Japan's "direct investments" the United States will be able to transplant operational resources from Japan and thereby stimulate the revitalization of its own industries.

Meanwhile, what merit does the United States have from the Japanese standpoint? The exportation of capital to

the United States will not only help stabilize the dollar but also provide Japan an opportunity to build a base from which to close in on and dig deeply into the vast U.S. market. The U.S. market with a population of 240 million is indispensable for Japan's enormous production capacity.

In this context, it can be said that the economies of Japan and the United States are already into a "cohabitational" or "symbiotic" relationship that binds them inseparably. Viewed strictly from this perspective, the Japanese-U.S. relationship is one of "helping and being helped" or "give and take" in nature—it puts the two countries on an equal footing.

As a matter of fact, this "symbiotic relationship" has already evolved into a ground swell. In specific terms, it has led to a full-scale production operation in the United States by Japanese enterprises. In 1988 Japanese automakers produced some 830,000 cars in North America, but the number is expected to reach the level of 1.3 million cars in 1989 and eventually climb to the level of 2.4 million cars in the 1990's. This means that in the near future the number of Japanese cars produced in the United States will match the number of cars Japan can export to that country under the existing system of voluntary restraint with an annual ceiling set at 2.3 million cars.

This coupled with the aforementioned Japanese M&A activities in the United States is beginning to make the flow of Japanese management resources into the United States look like a rush. Indeed the "mighty yen," created by the steady rise in its value, has begun to manifest itself in a rapacious proliferation of Japanese production bases throughout the world, especially in the United States. This is reminiscent of the Great Britain's colonial management of the 19th century and the postwar global evolution of U.S. multinational corporations.

The Hammering Sound of U.S. Reconstruction

Thus, we are now witnessing, close on the heels of the already expanded investment of Japanese financial capital in U.S. securities, the beginning of a storm-like rush into the U.S. market by Japanese production capital. The flow of "Japanese money" or Japanese capital into the United States is as usual taking the form of a localized torrential downpour; as a result, it has generated a sense of fear or resistance in the United States, where it is regarded as a "Japanese invasion" or "Japan's move to buyout the United States." The situation has reached a point where some are even anticipating the worsening of Japanese-U.S. investment frictions.

Incidents such as concentrated land purchases abroad by the Japanese have caused many small problems; however, the inflow of Japanese capital as a trend is basically being welcomed by the United States, albeit not as openly as M. Friedman would have us believe.

For, historically, the United States is a country that has always aggressively imported foreign management

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FBIS-EAS-89-140-S
24 July 1989

22

resources (personnel, capital, technology, and know-how) and used them to seize upon the opportunities for development and to set its dynamism into motion for advancement.

Indeed it is true that the United States, whenever it found itself in a state of helplessness or at a dead-end in terms of generating its own growth, has instinctively sought a transfusion of "fresh blood" from abroad to revive its dynamism. This "wisdom of the New Continent" has led to the so-called frontier spirit, and created a climate in the country that always welcomes "new-comers" and "frontiers." Thus, it seems fair to wonder whether the United States' openness toward strangers may be attributable, not so much to good intentions or open-mindedness, but rather more to its survival instinct or intrinsic desire for growth.

It is this culture that gave birth to and has nurtured the idea of its so-called "exceptionalism" (the idea that the United States is the sole and exceptional country in the world possessing the capacity to help mankind achieve its aspirations).

It is against this backdrop that the United States, now hearing the "sound of the ebbing tide," has been re-aroused to feel the sense of "exceptionalism." Instinctively sensing the critical state of its economic health, the United States has begun seeking a supply of "fresh blood" from another cultural sphere. This need can no longer be met by Europe, the United States' motherland on the other side of the Atlantic; the "fresh blood" the United States is seeking can be obtained only from Japan, the newly risen, superpower across the Pacific—a country overflowing with amazing vigor.

This being the situation, it is fair to say that the Republican Party and others in the United States, who are apprehensive of the ebbing vitality of their country and who uphold the entrepreneurial spirit as part of their ideology, are hankering for "fresh blood"—Japanese capital. It is also true, however, that a strong tendency exists in some quarters of the United States—perhaps because the country is now over 200 years old—to put stability ahead of dynamism, protection ahead of competition.

It follows therefore that the basic tone of U.S. feeling toward Japan is one of ambivalence, a mixture of goodwill and malice. In this sense, the U.S. reaction to the influx of Japanese capital may be likened to a case of "scare over 'manju' [a Japanese bun with a bean-jam filling]." At any rate, the United States has now completely succeeded in finding a source of "fresh blood." In this context, it can also be said that the U.S. strategy aimed at driving the yen to an extreme high has been artfully successful.

If so, the Japanese-U.S. relationship which is superficially described as "cohabitational" or "symbiotic" is in fact one structured on the basis of "the United States leading, Japan following." A leading figure on the

Republican Party side is often heard making—half jokingly, half seriously—such remarks as "The United States will be happy if Toyota buys out General Motors." By implication, what he is saying is this: "If that happens, it in effect means that the United States has succeeded in getting Toyota, i.e., Japanese capital, involved with the United States."

Beyond the "Dollar System Part 2"

From these observations it is self-evident that right now the United States, by enlisting the help of "Japan's strength," is making a strong effort to rebuild its economy. In this sense, to say that the Japanese-U.S. relationship is symbiotic or complementary is nothing more than a one-dimensional economic view. The only way one can fully understand the aforementioned issue concerning reform or renovation of the international economic system, I dare say, is through the three-dimensional perspective of power politics.

That is why the bargaining between Japan and the United States over the question of a new international economic system will not be on the basis of mutual economic benefits; rather, it will be a zero-sum-type deal that will determine which party is to lead and which party is to follow. The United States has come to recognize the indispensableness of Japan's financial and industrial power for the restoration of the U.S. economy. And now, from Japan across the Pacific to the United States, there is a rush of Japanese capital and other management resources as if they were "rescuers" on a mission.

What the United States has come to realize is not just the importance of enlisting Japan's economic power, the world's greatest. If it were, the result would be strictly a case of recovery through outside help. Without a recovery by its own efforts, there cannot be a true awakening. The United States is now waking up to the importance of technological nationalism. The so-called VTR [video tape recorder] shock has triggered the technological nationalism in the United States. In other words, the realization has become widely spread that the United States, by its complete dependence on Japan for VTR technology, has in fact subsequently lost its foothold in the field of state-of-the-art electronics. It is against this backdrop that the matter of independently developing HDTV [high definition television] and the FSX [fighter support experimental] question have become issues in the United States.

The United States had experienced an earlier surge of technological nationalism in the wake of the sputnik shock. That earlier surge led to the success of the Apollo project. In view of that, it is necessary for the Japanese to keep an eye on the recent awakening by the United States to the development of its own technologies.

All in all, we should accept the view that the United States has now begun moving, albeit slowly, toward its own economic reconstruction. In this vein, one has to

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FBIS-EAS-89-140-S
24 July 1989

23

wonder whether the United States, knowing that a complete restoration of the international economic system currently geared to the weakened dollar will require a considerable amount of time, might not be trying to somehow tide things over in the interim with the existing dollar system. In that event, the immediate question facing the United States is to figure out how best it can get by the "dropped-anchor period" until the dollar system is fully recovered.

It is toward that end that the United States will find it indispensable to utilize Japan's economic power. For it is no longer gold but the yen that can sustain the dollar on a continuing basis. Thus the stage is set for the commencement of the "Dollar System Part 2" in which, for all intents and purposes, the dollar will be the primary international currency and the yen will be a quasi-international currency. This, then, is the reality the second act of the international economic system's drama.

But such a system is one tailored to the restoration program of the United States as has already been observed. It has the basic ingredients for a fusion or a confrontation of different cultures—in a word, a potential for the unfolding of a drama involving hegemony over the economic system. In the United States this new system is being envisaged in various ways: as "an Amerippon scheme" in the words of Brzezinski and as "a bi-gemony structure (G-2 structure)" in Bergsten's words.

But by whatever label it is called, it all amounts to the "Dollar System Part 2." In the final analysis, it is nothing more than a product of the "United States first" doctrine that views the dollar and the yen in a relation of master and servant, respectively. Economists manage somehow or other to argue things one-dimensionally; their ideas tend to evolve into a plan which by nature is complementary for all and damaging to none. But this issue is essentially political.

As such, there is a strong probability that a violent politico-economic clash will unfold between Japan and the United States in the second act of the drama or "Dollar System Part 2." At the basis of such a struggle will be a clash of different cultures. To the Japan of yesteryear striving to catch up with the West, the "Dollar System Part 2" casting the dollar in the role of master would have been no problem. On the contrary, the yen's supporting role for the dollar would have been the cause for much pride.

But what about today's Japan? Granted it has neither a "refined ideology" nor "barbaric military power." Yet, is it not a superpower possessing the world's greatest "financial power" as well as "industrial power"? The "global-scale Japan" of today, backed by these substantive strengths, is no longer the "catch-up Japan" of yesteryear.

It may not exactly be a case of "well fed, well bred," but Japan has now begun searching for its own identity.

Strength breeds attachment to something of one's own. Economy never ends with "economics." It leads to a search for "something" beyond economics. That something is culture, but Japan's corporate culture, because of its idiosyncrasies, may very well be destined somehow or other to be regarded as an alien entity in the United States.

If Japan's idiosyncrasy can become universally acceptable, there will not be any problem. If it cannot, then Japan's possession of the world's foremost economic power will turn the "Dollar System Part 2" into a case of two bitter rivals placed by fate in the same boat; it could turn into an unstable regime with a potential for constant frictions.

For now, the international economic system will go forward in the form of the "Dollar System Part 2." But this mixture of a system is nothing more than a product of compromise between Japan and the United States, both determined to protect their vested rights—their immediate economic interests. In other words, it is devoid of the inclination to face up to and overcome the intrinsic differences between Japan and the United States. Consequently, lurking beyond the "Dollar System Part 2" may very well be a new Japanese-U.S. showdown. Or, will Japan transform itself in a conspicuous way into a large piece that will fit nicely into the mosaic by letting its idiosyncrasies be dissolved within the U.S. society?

New Grants-in-Aid Plan To Start Next Year
OW2806102489 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 27 Jun 89 Morning Edition p 5—FOR
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[Text] The government has decided to establish the "System To Support Structural Adjustment and Cooperate in Grants-in-Aid Funding" (tentative designation) to help heavy debtor nations in Africa and Asia. Under this plan, an amount of \$600 million will be extended for 3 years beginning in fiscal 1990. The "nonproject grants-in-aid" program, which started in fiscal 1987 for less-developed countries in Africa, will terminate this fiscal year. The new system is designed to succeed this program. It will increase the number of countries to be helped and amounts of money to be extended. As one of Japan's international contributions, this plan will be disclosed at the summit meeting of advanced countries to be held on the outskirts of Paris in mid-July. The system will support low-income countries suffering from debts which are working hard to basically consolidate industrial foundations. African countries aided under the "nonproject grants-in-aid" program will continuously be the major part of the beneficiaries under this new system. However, some countries in Asia and Central and South America will also be included. A government source says that "middle-income countries such as Mexico and Brazil will be excluded, but a study will be made on the inclusion of the Philippines." A multinational assistance program for the Philippines will begin

FBIS-EAS-89-140-S
24 July 1989

24

this fiscal year and the "System To Support Structural Adjustment and Cooperate in Grants-In-Aid Funding" will start next fiscal year. Therefore, the Philippines is likely to receive increased grants-in-aid next year through support from these two sources.

Japan promised to enforce the nonproject grants-in-aid program, which is to end this fiscal year, at the Venice summit in 1987, saying that it would extend \$500 million over the period of 3 years. A total amount of \$300 million was extended to Kenya, Nigeria, and Ghana by the end of March.

The accumulated debt issue is likely to become a big subject at the upcoming summit meeting. Concerning debts by middle-income countries such as Mexico and Brazil, an agreement is expected to be reached at the summit meeting to push ahead with a new debt strategy put forward recently by U.S. Secretary of Treasury Brady. As for Japan, it will support the "Brady Plan" and at the same time show its readiness to make active contributions to the solution of the debt issue of low-income countries. It thus plans to fulfill its role as a country in the black.

Western Defense Industry Aims at Japanese Market

OW1307143389 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 10 Jul 89 Morning Edition p 1—FOR
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[Text] European and U.S. defense-connected manufacturers, pessimistic about growth in their own weapons market, are looking at Japan as an export market. This was disclosed in a survey conducted by NIHON KEIZAI SHIMBUN among the world's major defense hardware manufacturers. They feel that Japan's defense industry will develop smoothly in the future. However, many of these enterprises are critical of Japan's licensed production and introduction of technology, and they feel that this might lead to trade friction.

Questionnaires were distributed to the following nine companies: McDonnell Douglas, United Technologies, General Electric, Bell Helicopter Textron, and Fairchild Industries of the United States; Aerospatiale of France; Oerlikon-Buhrle of Switzerland; Messerschmitt-Bolkow-Blohm of West Germany; and the Dowty Group of the United Kingdom.

Concerning Japan's defense industry, all the enterprises answered that "it would develop smoothly." The scale of Japan's defense industry amounted to approximately Y [yen] 1.1 trillion in 1988. However, five companies among the nine predicted that it would make rapid development and reach Y2-5 trillion by the year 2000. The Aerospatiale even estimated that it would exceed Y5 trillion.

However, regarding sales of their products to Japan, six companies, including McDonnell Douglas, pointed to existing barriers. They questioned Japan's position of

refusing to import weapons directly while demanding collateral technology transfer and licensed production.

As for the Japan-U.S. joint development of the next-generation support fighter (FSX), it has been noted in the United States that "Japan is capable of becoming a strong rival in the field of civil aircraft."

Government To Freeze Export Approval Plan OW2806115889 Tokyo TOKYO SHIMBUN in Japanese 24 Jun 89 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] According to information disclosed by government sources on 23 June, the Japanese Government has decided to freeze its plan for the time being to introduce a "Comprehensive Export Approval System," a pillar for easing the regulations of the Coordinating Committee for Multilateral Export Controls (COCOM) to the East bloc. The system was planned as a measure to expand trade with China. The government made this decision as a result of opposition, compiled by the United States and West Germany, strongly protesting against the planned relaxation of the COCOM regulations. Reportedly, the United States and five other nations, who were also planning to introduce the system following Japan, have decided to shelve the plan.

The "Comprehensive Export Approval System" is aimed at granting 2-year comprehensive permits to specific companies to replace the current system under which an approval has to be obtained for each export of certain goods to the nations which are subject to the COCOM regulations. The government already received applications from 70 companies, including Matsushita Electric Co, Hitachi Ltd and Sony Corp, for a comprehensive export permit for such products as large size multipurpose computers and insulation materials. The system was scheduled to be implemented after July.

Western nations were planning to introduce the same system on the basis of strategic decisions expecting that it would expand trade with China and support China's modernization. Other than the United States and West Germany, England, France and Canada were also planning to introduce the system.

However, domestic situation in China suddenly changed in May. Criticism against China by the United States and European nations flared up as the Chinese Government's suppression policy to execute prodemocracy movement leaders became apparent. In addition to banning exports of weapons to China, the United States strengthened its measures, such as suspending high-level contact with China and asking the World Bank and international organizations to postpone new loans to China. The United States and other nations are opposing the application of the system for China.

Consensus of all COCOM member nations must be obtained in order to ease the regulations. Thus, a plan to introduce the system has been suspended. Regarding its

FBIS-EAS-89-140-S
24 July 1989

25

future prospect, government sources said: "Discussions can not be started with the United States and European nations under the current circumstances."

Chemical Material Exports Regulation
OW2806114989 Tokyo NIHON KEIZAI SHIMBUN in Japanese 27 Jun 89 Morning Edition p 7—FOR OFFICIAL USE ONLY

[Text] The Ministry of International Trade and Industry [MITI] on 26 June decided to regulate exports of 40 items, including "phosphorous acid," all of which are feared to be used as raw materials for manufacturing such chemical weapon as poison gas. Under this decision, the ministry will put the items on the list of the Export Trade Management Ordinance. Consequently, 50 items, including those items presently under control, will be regulated. A cabinet meeting held on 27 June approved a cabinet order to amend the ordinance and the amendment will take effect beginning 9 July. Thus, the 50 items will not be exported without the prior approval of the MITI.

Chemical weapons were used in the Iran-Iraq war and this has strengthened regulations on the exports of chemical materials used as raw materials for manufacturing chemical weapons. The Meeting on Export Regulation of Chemical Weapon Materials (Australian group meeting), which is made up of 19 Western industrial nations with Australia playing the key roles puts 9 items on the list of legal regulations and 41 items on the list of surveillance. Japan will regulate all items controlled by the Australian group meeting by amending the Export Trade Management Ordinance.

Expert Views Administration of Development Aid
OW1707213389 Tokyo THE JAPAN ECONOMIC JOURNAL in English 15 Jul 89 p 10—FOR OFFICIAL USE ONLY

["Guest Column" article by Toshio Watanabe, professor of development economics at Tokyo Institute of Technology: "Unified Structure Required To Oversee Nation's Official Overseas Aid Program"]

[Text] Japan spent more than \$9.1 billion on official development assistance (ODA) in 1988, sharply narrowing the gap with the U.S., whose ODA expenditures totalled \$9.8 billion. Nevertheless, Japanese aid continues to remain the target of international critics, who note that the 0.32 percent ratio of ODA to GNP still falls far short of the international target of 0.70 percent. Further, it is often noted that the proportion of grants to total ODA remains small, while the terms for ODA loans remain relatively stiff.

Japan's foreign assistance budget is continuing to grow at a rapid clip, and will soon overtake the U.S. as the world's top aid donor. Moreover, a comparison of the two countries' fiscal resources available for ODA leaves no doubt that Japan will remain the number one donor well into the future.

In the past, Japanese foreign aid has concentrated on Asian countries with high economic growth rates. Given the massive expansion of Japan's aid programs and pressures from the international community, it can be expected that in future Japan will devote increasing amounts of its aid to the world's poorest countries. This, in turn, is likely to boost the overall grant element of Japanese aid. Japan will announce at the upcoming summit in France, that it will commit \$600 million in non-project grants to the least developed countries (LLDC's) of Africa and other regions. These funds, to be disbursed over a three-year period beginning in 1990, are to be earmarked for economic structural adjustments in the recipient countries. The "quality" of Japanese aid is also steadily improving.

The key issue surrounding Japanese ODA at present, however, has little to do with aid levels, loan terms or other issues of aid quantity or quality. The most significant problem, rather, is the lack of personnel and administrative capacity to deal efficiently with such massive amounts of aid.

Two agencies currently handle the bulk of Japanese ODA: the Japan International Cooperation Agency (JICA), which administers technical cooperation, and the Overseas Economic Cooperation Fund (OECF), whose principal task is to disburse yen loans. Both organizations, however, are mere "outpost agencies" dominated by the four executive bodies—the Ministries of Finance, International Trade and Industry, and Foreign Affairs, and the Economic Planning Agency—which hold principal jurisdiction over aid policy. Moreover, no organization exists which could integrate the administrative activities of the four key players.

Japan has no single agency equivalent to the U.S. Agency for International Development or the UK Overseas Development Agency to give concrete form to its "aid philosophy." As a result, the aid-implementing agencies have little autonomy, while their employees are offered few motivations or rewards. The system does not allow for the development of a corps of genuine aid experts.

At the same time, the number of individuals involved in the administration and implementation of Japanese aid is miniscule compared with the vast quantity of funds. The amount of ODA funds per aid staffer is undoubtedly several times higher in Japan than in the U.S. or the UK. This is not a sign of efficiency, but rather, of the immaturity of Japan's aid structure.

One important reason for this immaturity is the fact that the prototype for Japan's current aid structure was the reparations program carried out after World War II. Japanese reparations, mandated by the San Francisco Peace Treaty, were not based on any voluntary intentions of the Japanese. The expansion of Japanese aid following the reparations program was also more a response to outside pressure from other OECD nations than a reflection of Japan's own desires or intentions.

FBIS-EAS-89-140-S
24 July 1989

26

Japan also has long pursued a passive policy in which assistance has been provided only in response to specific requests from recipient countries.

Ultimately, Japan should establish a unified aid structure in the form of a single economic cooperation agency, while setting up a university which focuses on international development and could train badly needed aid experts.

There are a number of additional measures to improve Japanese aid, however, which could be taken even before such a sweeping change is implemented. For the moment at least, three specific proposals deserve consideration.

First, careful studies must be made of the recipient country's absorptive capacity for aid. If the recipient cannot absorb aid efficiently, there is little chance that aid projects will be successful. Nevertheless, Japan's efforts in this area have been woefully inadequate.

Second, there must be adequate follow-up on completed projects. Japan has generally been remiss in this area. One extremely important factor in determining the impact of a project is whether or not the local implementing agencies will be able to manage the projects without outside help, and eventually achieve the anticipated benefits.

Third, once a project is completed, the experiences gained should be analyzed in detail, and added to the store of expertise for future aid efforts. Deficiencies in the investigative system have hindered this accumulation of experience, and must be adequately addressed.

MITI To Develop 'Intelligent Manufacturing System'

OW2406215589 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 22 Jun 89 Morning Edition p 5—FOR
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[Text] The Ministry of International Trade and Industry [MITI] plans to develop a new intelligent manufacturing system (IMS) for the manufacturing industry in cooperation with the United States and the EC. MITI is to invest Y [yen] 50 billion in the project, which will integrate the productive, marketing, and distributive sectors. This will occur over the next 10 years, beginning in 1989. MITI plans to propose this to the United States and the EC in a joint international research and development project.

The proposed project is aimed at averting technological friction, which is now spreading to the manufacturing technological area, and at helping major advanced nations standardize productive technologies and specifications by pooling technologies in their lines.

The ministry intends to treat the results of this joint research and development project as common international property and make the results available to the newly industrializing economies and developing countries. It

plans to earmark Y1 billion in its estimated budget demand for Fiscal 1990 for research and planning expenses.

As a parent body for promoting this project at home, MITI plans to set up an International IMS Foundation (tentative name) next spring at the earliest. In addition to robot, machine tool, and other factory automation equipment makers, some 100 major businesses in the automobile, steel, and other user industries are expected to take part in the foundation.

The environment surrounding the manufacturing industry is undergoing such rapid changes as diversified consumer needs, higher age of the work force, and separation from the manufacturing industry. While the introduction of factory automation, which automates the productive process, is in progress—mainly at large enterprises—in the wake of innovations in microelectronics or network technology, computer integrated manufacturing and other methods of integrating productive activities on the whole have entered the stage of practical application at ultramodern plants.

In concept, the IMS project eyed by MITI is a combination of factory automation and computer integrated manufacturing. It is designed to control business activity from the receipt of orders for products to designing, development, manufacture, sales and even after sales services by combining them organically and thus further enhancing productivity.

MITI wants to promote this research and development project through international cooperation because it believes the project can be more effectively carried out by pooling technologies of the three parties in their respective lines—Japan in productive technology and numerically controlled machine tools, industrial robots and other factory automation equipment; the United States in software and network technology; and the EC in precision machinery, for instance. At a time when business activity is in the process of globalization, it is afraid to hamper the introduction of international networks and cause friction if each country and each enterprise develops productive technology of different specifications.

As a matter of fact, AT&T's Bell Laboratory has acquired patent rights for computer integrated manufacturing technology in the United States. It is feared that intellectual ownership rights disputes over productive technology might arise.

The U.S. Department of Commerce and the EC have launched joint government - private sector research and development projects on the theme of factory automation and computer integrated manufacturing, respectively. MITI believes that, if Japan, the United States, and the EC cooperate with one another in developing high technology, it will be possible to avert future friction.

If the United States and the EC agree to the proposal, MITI plans to determine specific development themes

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FBIS-EAS-89-140-S
24 July 1989

27

through consultation among the three parties. The ministry believes that integration technology, managerial methods, software and other IMS concept designing and detailed designing as well as adding values to industrial robots, unmanned carriages, measuring instruments and other IMS equipment will be major themes.

Of the Y50 billion development costs, the ministry wants to have the Japanese Government and private sector bear Y30 billion (Y20 billion by the government and Y10 billion by the private sector) and the United States and the EC bear the remainder, or Y10 billion each.

MITI wants to establish an IMS research institute, the nucleus for the research and development project, either in the United States or an EC member country, and promote the project through exchanges of industrial, government and academic researchers and technicians.

United States

YOMIURI Notes New Investment Friction

OW1007031889 Tokyo THE DAILY YOMIURI
in English 8 Jul 89 p 9—FOR OFFICIAL USE ONLY

["Currently Speaking" column article by YOMIURI SHIMBUN staff writer Yasuhiko Shibata: "Pickens' Koito Battle Marks New Investment Friction Era"]

[Text] Spurred by the acquisition of stocks in Koito Manufacturing Co. by American investor T. Boone Pickens in April, the bilateral friction between the United States and Japan over capital investment is about to enter a new phase.

Unlike past disputes over the capital investment between the two countries—which occurred when Japanese companies attempted to buy up large numbers of buildings in major cities in the United States, it appears that the Japanese management style itself has come into question.

Putting aside the question over whether or not Pickens bought the Koito stocks just to obtain quick profits, attention has now focused on the "closed nature" of the Japanese economy. Pickens, who came to attend the Koito's shareholders' meeting recently, made it clear that his reason for purchasing 20.2 percent of Koito's stock was simply an investment and that he wished to be considered a "long-term stockholder." As the top shareholder, he sought three seats on the governing board of directors—in vain.

In reacting to Koito's rejection, Pickens said it revealed the closed nature of the Japanese management system where corporate stocks are often co-owned by a number of companies, a practice that shuns individual shareholders.

Despite his reputation as a "corporate raider," or a "green-mailer" (terms used to designate those who buy up stocks of a particular company with the intention of

forcing the company to buy them back at high prices) Pickens' assertions at Koito's meeting were justifiable.

Undeniable also is his criticism that Japanese management has not been the least interested in individual shareholders and that the wild fluctuations in the stock prices in Japan have primarily been attributable to a limited availability of floating stocks—all of which he claimed are aspects peculiar to Japan.

His questions highlighted several important issues related to the Japanese management system, even if his ultimate goal was to make some quick profits.

Japanese investments abroad have come to be characterized overseas by controversial acquisitions of real estate or art. Yet those investments, which often include establishment of local branch offices and manufacturing plants or the acquisition of local enterprises, have generally been welcomed by the host country as they improve the bilateral trade imbalance by creating more job opportunities to local workers.

Neither has there been any overt criticism over the money invested in the U.S. treasury bonds by cash-rich Japan, which serves as an important source of revenue to the U.S. economy. On the other hand, there are many officials in Japan who say that the bilateral economic relationship between the two countries has never been worse. As proof, they point to U.S. criticism, raging particularly in the Congress, which has been characterized more by Japan-bashing than logic.

A more glance at the current economic performances of the two easily shows which corporate system is better. However, it's a bit galling that the Japanese corporate system has to have its weaknesses pointed out in this way. It is certainly not something we can be proud of.

* **Broad Vision Needed in Relations With U.S.**
41050105 Tokyo YOMIURI SHIMBUN in Japanese
2 May 89p 3—FOR OFFICIAL USE ONLY

[Editorial: "Japan-U.S. Crisis Caused by a Narrow Field of Vision"]

[Excerpts] The United States is coming up with one measure after another that will have a serious economic and political impact on Japan. The extent of interdependence between Japan and the United States is quite extensive, as seen in trade, direct investment, and technical exchange; therefore, frequent conflicts of interest and new friction can be expected.

However, conflicts over individual issues are aggravating the relationship between the two countries. Both countries have lost their perspective in adjusting Japanese-U.S. relations in a comprehensive manner, taking into consideration both diplomatic and economic issues and transcending the interests of individual issues. Herein lies the crisis in Japanese-U.S. relations.

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FBIS-EAS-89-140-S
24 July 1989

28

One-Sided Interpretation and Misunderstanding on the Part of the United States

[Passage omitted] With increasingly strong criticism against Japan by industry and the Congress of the United States, Japan's resentment against U.S. forcefulness is also increasing. It is expected that acrimonious interactions will only increase in dealing with individual issues.

With a trade deficit that does not easily decrease, the United States is treading down a path of becoming a country with enormous debts. Even its techno-hegemony is being partially shaken by Japan. With the value of the dollar remaining low, U.S. firms are continuously being taken over by foreigners.

All of these circumstances together invite irritation and a sense of crisis for the United States, and this seems to contribute to drastic measures being taken in the country's foreign policy.

The United States Takes Japan's Cooperation Lightly

There is evidence that a significant problem is developing when government and industry officials make the criticism that "even though Japan has made efforts toward making contributions internationally and cooperating with the United States, the United States does not value our efforts."

It is also certain that the whole situation is structured in such a way that Japan has no other choice but to accede to the demands of the United States. Since we depend on the United States for security, export markets, and basic technology, we have wanted to prevent aggravation of anti-Japan sentiment and have tried not to make the United States really angry.

Japan now budgets the largest amount for aid programs in the world and is recycling its trade surplus. Regarding the accumulated debt problem, Japan plans to make the largest financial contribution; in this way, Japan will cooperate in stabilizing the political situation in South and Central America, the "backyard" of the United States. Japan's direct investments such as purchase of government bonds and construction of plants in the United States should be helpful to the United States, too.

Although we must not think that such external economic strategies can relieve Japan from the charge of a continued trade surplus and aggressive exporting, it is hoped that the United States will become more understanding of the interdependency of both countries.

A second point is that the root cause of U.S. economic problems does not lie in Japan alone, but also in the United States itself.

There are certainly problems in the closed markets and aggressive exports of Japan and some Asian developing countries. In this area, there are more than just a few points in the recent report that we must agree with.

At the same time, however, the U.S. trade deficit is partially due to continued increases in imports. If the fiscal deficit can be reduced, spending should be curbed and imports should decrease.

Also, U.S. factories are operating at full capacity due to the improved economy; but they are busy responding to domestic demands and do not show an eagerness increase exports. In such a situation, even if the other party opens up its market, the deficit of the United States is not expected to decrease.

In the U.S. export of semiconductors to Japan, the United States complains that "the share in the Japanese market does not reach the target amount of 20 percent." However, a large share of the products of the U.S. manufacturers are for military use. Unless production of semiconductors turn toward civilian use as demanded by the Japanese side, exports are not likely to increase.

The General Framework of the Japanese-U.S. Cooperative Relationship Should Not Be Broken

The third point is the question of whether it is all right to undo the U.S.-Japanese agreement of the Reagan administration era now that the Bush administration has begun. If agreements are no longer binding after an administration change, than trust in the United States will be lost.

The cooperative development of the fighter jet was agreed upon between the government of both countries last November during the Reagan administration, and the formal agreement document was signed. But the Bush administration brought up that issue all over again and pressed Japan for renegotiation; as a result Japan conceded.

The same thing can be said for electronic communications. The issue was settled with the agreement between Japan and the United States 3 years ago to open the market for cellular car phones within a certain range. [passage omitted]

Probably there are some differences between both countries in interpreting the agreements. However, if sanctions are to be applied against Japan just because it refuses to "accept a request," [not a part of the original agreement] it gives an impression that the United States is steamrolling its demands. [passage omitted]

Paradox of Cheaper Japanese-Made Goods Overseas

OW2806025389 Tokyo ASAHI EVENING NEWS
in English 26 Jun 89 p 3—FOR OFFICIAL USE
ONLY

[ASAHI SHIMBUN 25 June editorial: "Narrow the Price Gap"]

[Text] "The paradox of 47th Street Photo" has recently become an oft-quoted expression among Americans

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FBIS-EAS-89-140-S
24 July 1989

29

when debating various aspects of trade and economics between Japan and the United States.

Located in New York's Manhattan district, "47th Street Photo" is a popular shop that sells cameras at reduced prices. Made-in-Japan cameras can be bought at cut-rate prices far cheaper than in Japan. Thus, the shop is sometimes regarded as a symbol of the paradoxical nature of contemporary Japan—an economic giant in terms of manufacturing and industrial output, but an undersized dwarf when it comes to providing its own domestic consumers with the good life.

Since 1985, when the yen suddenly started to become progressively stronger than the dollar, the Japanese-made products retailed in the United States have become up to 20 percent cheaper than their domestic prices. This has even given birth to a new business practice—that of buying up made-in-Japan products in the United States, shipping them back and selling them to the Japanese.

Alarmed by this "reverse flow," Japanese manufacturers hurriedly reduced the domestic delivery price of their products while jacking up the price of exports. The price gap now is not as steep as it once used to be, but still it's cheaper to buy certain Japanese goods in the United States.

This reverse-flow phenomenon involved camera film, and there was a time when considerable price gaps existed among various household electrical appliances and electronic products, including videotape recorders (VTR's)

What, then, are the causes behind this phenomenon?

The primary reason it exists is because sales would decline if the dollar-based market price of a product sold abroad was marked up commensurate with the stronger yen. Japanese makers opted to take a cut in actual yen receipts by not jacking up their prices.

Basically, there persists in the Japanese business culture a traditional propensity to expand the volume of sales by flooding overseas markets with low-priced exports—at levels often set so low as to invite charges of dumping. At the same time, differences in the reactions of Japanese and American consumers to prices must not be overlooked.

American consumers tend to be more price-conscious, and generally are prone to shy away from high-priced commodities. So much so that when one Japanese camera company hiked the retail prices of its line of products, including the single-lens reflex camera, it simultaneously placed on the U.S. market a new, popular model at about half the price.

In sharp contrast, Japanese consumers tend to pay greater attention to quality, additional functions and novelty of design rather than to price. Take automobiles, for example: Deluxe models consistently sell better than standard, custom-made cars in Japan.

Japanese consumer attitudes are clear-cut when it comes to foreign-made products with famous brand names. According to a Ministry of International Trade and Industry (MITI) survey, foreign goods bearing well-known brands, such as perfumes, wristwatches and golf clubs, cost anywhere from 30-to-60 percent higher when bought in Japan. The reason is foreign makers and exclusive import agents mark up their prices by taking advantage of this Japanese weakness for famous brand names.

This stolidity toward price on the part of the average Japanese consumer is also a direct reflection of the cultural makeup of Japan's society. The rampant practice of exchanging gifts and expense-account purchases in this country is characterized by the notion that the higher the price, the better the gift. For a person who spends anywhere from Y [yen] 20,000 to Y30,000 for an afternoon out on the golf course, it wouldn't make all that much difference to spend Y200 or Y600 for a single golf ball.

Of course, Japanese consumers should not be censured for emphasizing quality and for attaching certain "dream-world sentiments" to their purchases. But is the attitude of being satisfied simply because an item bought or received happens to have a famous brand name or a new-to-the-eye design conducive to a truly enriched life?

According to a survey conducted by the Economic Planning Agency (EPA) on 456 items closely related to people's livelihood, such as foodstuffs, housing, utilities, etc, the cost of living in Tokyo is an average of 40 percent higher when compared to New York and Hamburg (West Germany). In view of these realities, the Japanese government has been availing itself of every opportunity to explain the need to lower the level of the nation's domestic commodity price by narrowing the gap between domestic and foreign prices.

The suggested approach is correct, but even regarding such products as manufactured goods and brand name commodities—the two areas where it should be relatively easy to narrow the domestic vis-a-vis foreign price gap—a solution will be hard to achieve, as we've already noted above.

For one thing, the Japanese government needs to become more serious about activating the mechanism of competitive prices in the domestic marketplace by opening up the country's doors to a heavier inflow of lower priced foreign products and by reducing its regulations. In particular, the existing system of sole, exclusive agents needs to be reviewed and a far more active Fair Trade Commission (FTC) is desired.

Also, Japan's business community needs to turn over a new leaf by correcting a business culture that tends to lean heavily toward overproduction and a profit-first philosophy. Business should produce and place on the market commodities that are low priced precisely because they are not loaded with unnecessary functions

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FBIS-EAS-89-140-S
24 July 1989

30

and superfluous embellishment. Ultimately, however, it will be up to the individual Japanese consumer to make business mend its ways.

Purchase of U.S.-Made Auto Parts Increases
OW2506142089 Tokyo ASAHI EVENING NEWS
in English 24 Jun 89 p 5—FOR OFFICIAL USE ONLY

[By ASAHI NEWS SERVICE]

[Text] The value of U.S. auto parts purchased by Japanese companies soared 56.6 percent from last year to \$4.9 billion in fiscal 1988 that ended March 31, a Japanese auto industry association has said.

As a matter of policy, Japan's auto industry does not disclose the number or origin of foreign parts purchased.

Auto industry officials attributed the surge to major efforts by Japanese automakers to increase their purchase of U.S. auto parts in the past year to ease growing trade friction between the two countries. The amount also included parts bought by Japanese automakers operating assembly plants in the United States.

Eleven Japanese car companies bought U.S. auto parts worth \$4.9 billion in 1988, up from \$3.1 billion in fiscal 1987, according to the Japan Automobile Manufacturers' Association (JAMA). The figures were relayed to the U.S. government last week by the Japanese government in accordance with their agreement on Japan's purchase of auto parts, JAMA officials said. The biannual report is required under the 1987 agreement to monitor Japan's purchase of U.S.-made auto parts as part of the MOSS (market-oriented sector-selective) negotiations. The agreement requires Japan to report to the United States its progress in parts-buying over the next five years.

Despite the agreement, the United States has criticized Japan for not doing enough to buy more U.S. auto parts. The JAMA officials said they hope the increase of more than 50 percent would convince U.S. trade officials the industry is making a serious effort.

Negative Aspects of U.S. Trade Act Noted
OW2406183989 Tokyo THE DAILY YOMIURI
in English 23 Jun 89 p 4—FOR OFFICIAL USE ONLY

["Currently Speaking" column, article by Yasuhiko Shibata, YOMIURI SHIMBUN staff writer: "U.S. Super 301 Clause May Be Dangerous Tool"]

[Text] It has been nearly a month since the United States rolled out the protectionist measures against Japan it had been threatening under the Super 301 clause of the 1988 Trade Act.

Japanese officials, most of whom initially reacted to the U.S. action as a prelude to a potential trade war, seem to

have calmed down, realizing the necessity of working out better ways to deal with its largest trading partner.

A closer look at the Super 301 clause shows both positive and negative aspects.

It was reported that the U.S. Congress heaped praise on [U.S.] Trade Representative [USTR] Carla Hills for citing Japan as a country with "unfair trade barriers" to U.S. products in the areas of supercomputers, telecommunications satellites, and wood products.

The USTR action seems to have helped appease the anger of some of the members of both the House and the Senate, who had seemed set on launching a new round of Japan bashing.

More practically, with Congress threatening to take the wheel, the Bush administration was near losing its chance to control the negotiations with Japan. The action gives the administration some breathing space.

As it happens, all three markets the USTR claimed were unfairly protected against foreign products are ones Japan is willing to negotiate on. The U.S. government presented Japan with demands to which it knew Japan could somehow respond.

The last positive aspect is that it helped Washington set up a forum for talks to resolve discordant bilateral issues, including trade imbalances, that are, while cumbersome, nonetheless fundamentally more important than those related to trade structures in Japan.

There remain, however, a number of "structural" problems on the part of Japan, including its complicated distribution system, the "dango" system of bidding collusion, (particularly prevalent in the construction industry) and ambiguities in such fields as finance and investment.

While they may cause problems for foreign companies trying to enter Japanese markets, these structural problems are integral, organic parts of the Japanese economic system. They must be handled with a much longer perspective than the three categories of products cited by the USTR.

Negative aspects of the trade act for the United States are that the retaliatory measures to be taken under the Super 301 clause would not only prevent the country from being able to regain its economic strength and reduce its trade and federal budget deficits, but also make Americans lazier.

If the United States continues to put undue pressure on diligent Japanese workers while refusing to do the necessary soul-searching on its own part about the habitual overspending and indebtedness of its citizens, it is likely to be sneered at by other countries.

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FBIS-EAS-89-140-S
24 July 1989

31

In this sense, the Super 301 Clause of the 1988 Trade Act may become a sort of narcotic for the U.S. economy. It would do well to kick the habit early.

Sources View 'Structural Consultations'
OW0907042589 Tokyo *ASAHI SHIMBUN* in Japanese
6 Jul 89 Morning Edition p 1—FOR OFFICIAL USE ONLY

[By correspondent Kanemoto]

[Text] Bandar Seri Begawan (Brunei), 5 Jul—A source accompanying Foreign Minister Mitsuzuka during his visit to Brunei revealed on the afternoon of 5 July that formal discussions are to be held within the structural consultations to consider such issues as the distribution system, the practice of prebidding arrangements [dango], and the question of savings and investment, issues which have become the focus of Japan-U.S. economic talks. These discussions are scheduled to begin during the Japan-U.S. summit meeting that precedes the summit of leaders of advanced countries on 14 July. He also stated that both sides are expected to agree on arriving at a preliminary conclusion within a year.

In this connection, another source accompanying the foreign minister revealed that during the recent consultations between Deputy Vice Minister for Foreign Affairs Kunihiro and the U.S. Government in New York, both sides had agreed on seven or eight topics that would be discussed and noted their intention to submit these topics to the Japan-U.S. summit for discussion. The summit talks are also expected to agree that the structural consultations are: (1) not negotiations but consultations, (2) a venue for the discussion of the problems of both sides, and (3) a means to cover discussions on all problems under government jurisdiction.

The same source indicated that "in some areas, the revision of domestic laws and administrative orders may be necessary." Thus, the consultations would not seek to arrive at conclusions on all issues within a year. As for those areas which require further consultations, discussion will continue even after the year is over.

The U.S. side proposed the structural consultations in view of the fact that even with the appreciation of the yen and the depreciation of the dollar through a policy of large-scale foreign exchange adjustment in the wake of the 1985 "Plaza Agreement," the U.S. deficit against Japan has not shown considerable improvement; the deficit last year still reached \$55 billion. It has become clear that negotiations and sanctions in specific areas, such as semi-conductors, do not lead to an improvement in the trade balance or to basic solutions.

Positive Outcome to Trade Friction Urged
OW0507083489 Tokyo *THE JAPAN ECONOMIC JOURNAL* in English 8 Jul 89 p 11—FOR OFFICIAL USE ONLY

["Opinion" column article by Yutaka Kosai, president of Japan Center for Economic Research: "The Gloves Come Off in Battle Over Super 301"]

[Text] It is no small matter when a major world power brands a key ally as an unfair trader. This is precisely what happened when the U.S. recently invoked the Omnibus Trade Act's Super-301 provisions against Japan, and decided to enter into comprehensive talks with the Japanese regarding structural trade barriers. A look at the attitude of the U.S. Government and Congress, and the tone of comments regarding Japan by American intellectuals and the press, leaves no choice but to prepare for widening and worsening economic frictions.

The overbearing attitude of the U.S. towards Japan, moreover, is cause for anxiety over the prospects for conciliation between the two nations. It is also likely to bring more vociferous criticism of the U.S. by Japan, as well as a rise in nationalism and greater demands for an independent Japanese foreign policy.

This same concern can be found among U.S. observers. George Kennan, for example, has correctly criticized U.S. diplomacy as excessively legalistic and moralistic. With regard to the U.S. Government's attitude toward Japan, William Niskanen has written of "a rather ugly dimension" and some element of racism," which he says "came very close to reasserting our authority during the Occupation." I must concur with this.

The Japanese Government has indicated it will not consent to talks with the U.S. regarding Super-301, as it invokes the threat of sanctions. James Fallows' recent comment in his essay on "containing Japan" that Japan should be dealt with forcefully, moreover, has made it difficult even for Japan's pro-U.S. side to urge a compromise.

Japan must meet this latest round of trade friction with a massive appeal to international opinion. The view of Japan among international organizations, the European Community and Asian nations, however, is at least as cool as that of the U.S., if not more so. Japan must use every opportunity to emphasize the correctness of its position, and must rely on its own efforts to straighten out any misconceptions. Moreover, Japan-U.S. cooperation must be maintained.

Whether speaking from historical and geographical conditions, or from the position Japan occupies in the world economy, it is clear that the Japan-U.S. relationship is of vital importance. While the U.S. may be self-righteous, it is also the most open society in the world. If conciliation cannot be reached with the U.S. it probably could not be achieved with any nation.

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FBIS-EAS-89-140-S
24 July 1989

32

The gravest danger in the current round of Japan-U.S. friction, however, is the possibility of a showdown in the high-technology field with national self-interests in the foremost position. There seems to be no foolproof policy for resolving this problem.

The issue of fairness has no direct relationship to the balance of trade. If there were no significant imbalance between Japan and the U.S., however, the issue would not have become so complicated. The decision to excuse Korean, Taiwan and the EC nations from designation under Super-301 reflects, in part, the recent improvements in the U.S. balance of payments vis-a-vis these nations. One means of resolving Japan-U.S. trade frictions, therefore, is to address the lopsided balance of trade between the two nations.

Full employment in the Japanese economy and fears of inflation have prompted an increase in interest rates. Moreover, it has become difficult to achieve further boosts in domestic demand through macroeconomic policy measures. One means of resolving this dilemma, in which full employment coincides with a balance of payments surplus, would be a further rise in the value of the yen. The yen's value has fallen, however, and this has contributed to the rise in interest rates.

Given the snags involved in macroeconomic policy, Japan has no choice but to pursue micro-level responses to U.S. demands, which also focus on the micro-level. The most clear-cut option available to Japan is to abandon those restrictions and protectionist measures which are inappropriate for a nation with a large trade surplus. Specifically, Japan should liberalize its agricultural sector, abolish restrictions in its distribution networks and open up the construction industry.

From an economic standpoint, the current full employment and labor shortage provide an opportune moment for liberalizing markets and scrapping restrictions. The problem lies in the lack of the political capacity to implement such moves.

Unfortunately, this is a highly unstable phase in Japanese politics. Japan's rural areas and small-scale retailers have traditionally been the bedrock of Liberal Democratic Party [LDP] support. As more Japanese move into the cities and enter office jobs, and as Japan's society becomes increasingly international, there is a growing need for liberalization. Moreover, in order to reduce income and corporate taxes, a new consumption tax was introduced.

While the LDP has alienated many of its traditional supporters, however, the recent Recruit scandal and the unpopularity of the consumption tax have left it unable to secure a new source of support. The result has been a political vacuum, precipitated by a lack of leadership. This, in turn, has made it difficult to proceed with liberalization efforts. The timing of this political turmoil is particularly poor, moreover, as it coincides with rising U.S. protectionism.

The comprehensive talks on structural barriers, however, can be utilized by Japan as an opportunity to say its piece vis-a-vis the U.S. If the talks proceed smoothly, they may well help build the foundation for a future Japan-U.S. free trade agreement. Japan should respond aggressively in this area.

The key problem is how to respond to arguments from the U.S. side regarding bid-rigging, market allocation and group boycotts in Japanese industry. There is also the possibility that mergers and acquisitions and methods of developing high-tech products will emerge as issues for discussion.

Japanese corporate practices have their own unique merits. Economic theoreticians have gradually begun to point out this fact. At the same time, however, there are many aspects to these practices which are questionable even from the Japanese standpoint, and which will not wash under current international rules.

Thus, Japan's response to structural issues takes on an intellectual and conceptual tone which transcends mere expediencies. Assuming that there is some logic to Japan's position on these issues, this should be explained in terms which will prove persuasive in the international arena. A satisfactory conclusion to the problem cannot be achieved simply by falling back on pat appeals to "Japanese uniqueness."

Given the fact that Japan has become so tightly interwoven with the international economy, it will eventually be unable to maintain a position which is not defensible on an international level. Thus, vigorous self-reform is required. Moreover, for the sake of Japan's own development, the upcoming discussions should be approached with a constructive and forward-looking attitude, rather than attempts to play the role of victim.

While it is true that Japanese products are often sold at lower prices overseas than inside Japan, this phenomenon is baffling to the Japanese as well. The eerie silence of Japan's consumers and mass media on this subject, however, gives other nations the impression that Japan is a strange and peculiar country. This in turn becomes justification for discrimination against Japan.

Past reforms implemented in response to outside pressures have not generally proven detrimental to the Japanese economy. On this occasion as well, efforts should focus on seeking a positive outcome to current problems.

Paper on Background of Cellular Phone Issue
OW2806154689 Tokyo THE JAPAN ECONOMIC JOURNAL in English 1 Jul 89 p 28—FOR OFFICIAL USE ONLY

[By staff writer Hisao Takagi]

[Text] The Micro TAC, a radio phone recently introduced by Motorola Inc. of the U.S., can fit neatly in your shirt pocket. At 349 grams, it is the lightest cellular

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FBIS-EAS-89-140-S
24 July 1989

33

phone on the world market, little more than half the weight of the smallest model provided by Japan's Nippon Telegraph and Telephone Corp.

Don't let the size of the phone fool you, though. This tiny unit has been having a big impact on U.S.-Japan trade relations lately, and it is a powerful competitive weapon for Motorola's campaign to break into Tokyo's lucrative cellular telephone market.

Under a three-year-old bilateral agreement, the Illinois-based electronics manufacturer is unable to sell its new product in the Tokyo and Nagoya areas, where a different technical system developed by Japanese competitors is used.

Now, Motorola wants in. The largest cellular phone maker in the U.S. has been vigorously lobbying on Capitol Hill for a revamping of the 1986 agreement reached at the market oriented sector selective (MOSS) trade talks.

There are numerous bilateral trade issues on the fire, but few have the immediacy of this one. Why?

"Motorola cannot wait very long before entering the Tokyo area," says Hitoshi Tani, executive assistant to the chief executive officer of Metrophone Co., a Japanese venture set up in 1987 to begin cellular phone service in Tokyo.

Tani, whose company is seeking approval from the government to start cellular phone service with the Motorola system, says the U.S. firm believes its Japanese rivals will come up with even smaller phones in less than a year, and will capture its prospective customers in Tokyo before Motorola even starts business.

At ministerial-level talks held in Washington since last week, the U.S. and Japan have been striving to break the telecommunications deadlock.

At that time, the Japanese Government said there were not enough airwave frequencies in Tokyo to be allocated to foreign companies. The Americans accepted that argument.

Then, Japan's Ministry of Posts and Telecommunications disclosed a plan last year to allocate new frequencies to a Japanese firm. That's when the static over the phone issue started anew.

But industry sources here say the real problem is that Motorola is skittish about the changing market environment in Japan.

The Japanese rivals are confident they will catch up with the U.S. manufacturer soon. Right now, nearly all Japanese makers say, Motorola's Micro TAC phones are very competitive. But that, they say, won't last.

"We are now developing smaller phones than Motorola products," says President Haruo Yamaguchi of NTT [Nippon Telegraph and Telephone].

And Japanese firms say Motorola wants to make full use of its product superiority, particularly in size, before it's too late.

Another reason for the company's haste to enter Tokyo is the planned introduction of a digital cellular system in two to three years. The next generation cellular system is to replace the current analog cellular formats, including the Motorola system.

Conventional radio phone equipment, either in Motorola's or NTT's formats, may then lose its competitiveness.

"Motorola sees that now is its last chance to sell a large quantity of analog-based equipment in Japan," says an official of the Ministry of Posts and Telecommunications. "Two, three years is too long for them to wait," he adds.

As a direct result of the huge U.S. trade deficit in the telecommunications equipment area, the Bush administration shares Motorola's impatience.

"The U.S. said Japan's proposal for codevelopment of joint digital cellular format is worthwhile, but American frustration over the trade imbalance is growing," says Yusai Okuyama, vice telecommunications minister, who is leading the Japanese delegation at the Washington talks.

Even some American industry people, however, regard the U.S.'s move as an obstacle to the smooth economic relationship between the two nations.

"The general perception is that Japan is susceptible to foreign pressure and that Japanese trade negotiators concede whenever the U.S. really pushes them," notes John P. Stern, vice president of the American Electronics Association's Japan office.

"The U.S. and Japan will continue this style of negotiation over and over, worsening their relationship," he says.

Such a sector-selective approach, especially in fields involving a large American corporation, gives some Japanese the impression that the U.S. Government is merely acting on behalf of a single company.

"It's not fair for the U.S. Trade Representative's Office to put such pressure on Japan, just because of some politically powerful U.S. corporations' demands," says a president of a major Japanese electronics company, who asked not to be identified.

The influence of Motorola Chairman Robert W. Galvin in the Bush administration is also frequently reported by the Japanese press, adding to the impression that he is behind the trade issues involving the U.S. electronics industry.

They pointed out that Galvin hired three former high-ranking Washington officials, including former Deputy

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FBIS-EAS-89-140-S
24 July 1989

34

U.S. Trade Representative Michael Smith as an adviser. In addition, Galvin's son and a former Motorola officer have attained.

So, why are Japanese companies so resistance to Motorola's moving in on the Tokyo market?

Most believe the entry of the Motorola-format cellular system will force some radio band users to reduce their frequencies—or to get out of the saturated Tokyo market altogether.

Paper on Liberalization of Telecommunications
OW0207000289 Tokyo ASAHI EVENING NEWS
in English 30 Jun 89 p 3—FOR OFFICIAL USE
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[ASAHI SHIMBUN 30 June editorial: "Trouble in the Airwaves"]

[Text] In certain sectors of industry, including telecommunications, there will sometimes arise a sharp conflict of interests even between friendly nations. The airwaves are tied in not only with national interests in terms of national security but with corporate interests, or in other words, the interests of the corporations involved.

In a nutshell, the access by American corporations to new radio wavelengths in Japan will be of significant benefit to the U.S. businesses involved.

On the one hand, the U.S. administration considered it necessary that there should be greater access to the Japanese telecommunications market. With this need in mind, the American Government and Motorola Corp. coordinated in exerting pressure on Japan.

Having completed preparations for an invocation of sanctions in the form of controls on Japanese telecommunications equipment imports, the U.S. administration pressed Japan to the limit to make concessions. Credit should go to officials for the efforts they have made in averting the American sanctions.

But when we look back on the talks, we note that the words and deeds of the Ministry of Posts and Telecommunications were wanting in consistency.

The Americans asserted that they wanted to use Motorola cellular telephones not only in the Kansai district but in Tokyo and Nagoya as well. In the talks they earnestly wanted to come to grips with the right to have new frequency bands in the national capital and Chubu. The Japanese yielded to them with a full awareness that the addition would run counter to the conventional distribution of frequency bands.

The Ministry of Posts and Telecommunications, which had initially argued there was simply no room for any additional bands, squeezed some bands out of somewhere at the last moment.

Also, the allocation of additional bands under the U.S. pressure produced illogical results. Should the Americans touch on the most vulnerable point, they would say the ground for Japanese assertions is nebulous. This sort of posture might tempt the United States to demand another concession.

The Ministry of Posts and Telecommunications has conceded readiness to allot additional bands signifying a Japanese violation of the U.S.-Japan Market-Oriented Sector-Selective (MOSS) Agreement. In other words, the ministry, whose officials sat at the conference table with a fundamental posture of striving to avert a violation of the accord, eventually contradicted itself.

There developed a number of turnabouts in the talks simply because it was considered a priority to arrive at a political settlement. In this respect there was no significant difference from trade talks in the past, but the impression is that the mode of talks between the United States and Japan have become all the more fixed.

For the new staff of the Office of the U.S. Trade Representative (USTR), the talks were the first they went through under George Bush's administration in accordance with the 1988 Omnibus Trade Act. There is no doubt the results will reflect on future talks associated with super 301.

Has the USTR staff keenly felt that Japan is a country from which one thing or another will come out each time it is squeezed? It might have also felt once again that there will be nothing to gain from Japan unless it is threatened with possible sanctions.

There have yet to be signs of an improvement in the trade imbalance between the United States and Japan. The high-tech sector, which is the apple of corporate America's eye, remains trampled by Japanese businesses. It is not difficult to realize that the USTR is inclined to score points for the United States by threatening Japan with possible sanctions.

Now that it has grown so much economically, Japan must not come to rely on an easygoing manner in political confrontations, which is being taken advantage of when Japan finds itself in unfavorable circumstances.

When it is unsatisfied with bilateral talks, Japan should equip itself with the practice, not just words, of making an appeal to the General Agreement on Tariffs and Trade (GATT) to determine who is right.

In administration of telecommunications in particular there are so many legal permits and authorizations to contend with that the Japanese telecommunications market is criticized both at home and abroad as being closed.

The ministry ought to take another look at its administration by determining who has rights to the nation's airwaves. The system that allows the people keep an eye

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FBIS-EAS-89-140-S
24 July 1989

35

on these policies is inadequate. This strong impression has emerged from the U.S.-Japan telecommunications talks.

Ministry Concerned Over Trade Concessions
OW0107133689 Tokyo ASAHI SHIMBUN
in Japanese 30 Jun 89 Morning Edition p 9—FOR
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[Text] A settlement has finally been reached at Japan-U.S. negotiations on a dispute over telecommunications, which became a issue for the first time under the U.S. omnibus trade act, but the Foreign Ministry anticipates that the United States will come to future trade talks with Japan assuming a stern position, armed with a polished negotiation technique of "attaching importance to results" and heeding pressure from the U.S. Congress and related industries and businesses. The forthcoming talks include negotiations under super 301 (naming of a nation as being engaged in unfair trade practices, negotiations resulting therefrom, and sanctions) and a conference to discuss structural obstacles including the distribution system.

The strategy of "attaching importance to results" is also viewed as revealing a weakness of the Bush government to the Democrat-controlled Congress and the industries, which are strengthening their protectionist tendency, and the Foreign Ministry is concerned lest the concessions made by Japan this time should lead to giving impetus to Congress and the industries in stepping up their pressure on the government.

The Foreign Ministry, judging from remarks by U.S. Trade Representative Hills and others in Congress, clearly predicts that the United States will come to future talks with the strategy of "prying open the Japanese market by using a steel bar until concrete results are secured," (according to a senior official of the Foreign Ministry).

On the method of proceeding with talks on structural obstacles aimed at reforming Japan's distribution system and improving Japan's exclusive inter-business transactions, the Japanese side proposed a dialogue to discuss the structure, but the U.S. side brushed it aside on the grounds that "it was not action-oriented."

Faced with persistent pressure from Motorola Inc and some members of Congress, the Japanese Government at the recent negotiations ended up making repeated concessions, departing from the original position of "we have not violated the Market-Oriented Sector-Selective (MOSS) Agreement," and finally agreeing to allocate radio frequencies.

The Foreign Ministry is afraid that this outcome has further implanted on the U.S. side the impression that "Japan is a country which yields more if shaken and yields nothing if not shaken."

Supercomputer Discount Guideline Formed
OW3006004389 Tokyo ASAHI EVENING NEWS
in English 28 Jun 89 p 3—FOR OFFICIAL USE
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[Text] The government Tuesday formed an official stand that discount rates for the supercomputers it procures should be held within 50-percent, apparently because of the U.S. claim that Japanese supercomputer makers are offering unduly high 80 to 90 percent discounts, robbing U.S. makers of chances to enter the Japanese market.

The government will shortly distribute an administrative guideline to national universities and other procurement institutes to observe when making their budgets. The three Japanese supercomputer makers are to refrain from offering discounts exceeding 50 percent.

The United States has designated the Japanese supercomputer trade as an unfair trade practice under the Super 301 section of the omnibus trade act and is demanding improvement of the situation.

The government, however, decided to improve the situation on its own, saying the conventional 80 to 90 percent discounts are abnormal.

With the administrative guideline, the government wants to soften the U.S. stance and urge the U.S. Government to procure Japanese supercomputers. No Japanese supercomputers have been delivered to U.S. Government institutions yet.

The latest Japanese policy will be applied to eight supercomputers Japanese Government institutions have announced plans to procure. Biddings for the eight supercomputers are all scheduled for next year.

As reasons for the 50 percent discount guideline, the government cited similar discounts being offered in procurements by private enterprises and the customary 50 percent discount being offered in procurements of TV sets and other commodities by public schools.

Civil Aviation Talks With U.S. To Resume
OW1107143689 Tokyo JIJI in English 1321 GMT
11 Jul 89—FOR OFFICIAL USE ONLY

[Text] Tokyo July 11 (JIJI PRESS)—Civil aviation talks between Japan and the United States, interrupted in May, will resume in Washington July 24, the Transport Ministry announced Tuesday.

The forthcoming four-day talks will focus on expanding air services between the two countries.

The Japanese are expected to call on Washington to admit cargo flights to Chicago by Japan Airlines and Nippon Cargo Airlines (NCA), those to San Francisco by NCA and passenger flights to Hawaii by All Nippon Airways. The U.S. Government is likely to ask for rights to fly into Japan from Houston, Denver and elsewhere in the United States.

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FBIS-EAS-89-140-S
24 July 1989

36

*** U.S. Congress Continues Pressure**
41050087 Tokyo CHUO KORON in Japanese
Apr 89 pp 180-194—FOR OFFICIAL USE ONLY

[Article by Atsushi Kusano, assistant professor at Tokyo Institute of Technology]

[Excerpts] It may well be the case that the "external pressure" that has been put on Japan to "internationalize" was inevitable, but the "success" achieved by U.S. foreign policy initiatives regarding Japan, relying mainly on pressure, are only one side of the equation. This approach has caused serious problems on the Japanese side.

I. U.S.-Japan Relations: No Cause for Optimism

In Japan, the "Heisei" era has just started, while in the United States, the Bush administration and the 101st Congress have begun their work. Thus, right at the beginning of 1989, a lot of new tasks have piled up for both countries to attend to. One might look upon this as an opportunity to shift the emphasis of U.S.-Japanese relations from one of "frictions" to a more "mature" relationship.

However, there is no cause for optimism about future U.S.-Japanese relations. At their first meeting on 2 February of this year, President Bush and Prime Minister Takeshita agreed that "while the U.S.-Japanese relationship is important for the other countries of the world," the United States requires more "burden sharing" from Japan. The significance of this will be touched upon later, but, in some quarters in Japan during the height of the U.S. presidential election, it was hoped that "with the arrival of a Republican Bush administration, pressure on Japan will let up."

One of the keys to this is the direction of the United States Congress. It does not need to be pointed out repeatedly, but when one speaks of the "American Government," one means the executive, legislative, and judicial branches, so the Congress is but one branch (though perhaps the most important one) of the "American Government." Usually, the term "Government of Japan" indicates only the executive (or administrative) branch of government. The fact that it does not include the Diet makes it very different from the U.S. Government. Thus, it is important for observers of the U.S. Government and U.S. foreign policy to pay careful attention to the role of the Congress.

It is probable that in the future, with greater demands on Japan from the Congress in the areas of commerce and defense, the Bush administration will increase its demands on Japan.

Why is it that just after the Congress enacted a new trade law, pressure on Japan increased? Why is it that Congress is not satisfied with Japan's continually increasing military spending? It would require a whole separate

article to thoroughly answer these questions, but the answers can be summed up in the following five points:

1. Both houses of the Congress are controlled by the opposition Democratic Party, rather than by the Republican Party of George Bush. This is one of the main reasons for the troubles that the new administration has had in dealing with the Congress. The fact that he recognized this reality is why Bush emphasized cooperation and conciliation during his inauguration speech. Bush's call for dialogue, which differed from the approach of the Reagan administration, has received some praise, but in reality, it will most likely be viewed with a critical eye, especially concerning trade and investment issues. The Democratic Party's vice presidential candidate Bentsen, will once again become chairman of the Senate Finance Committee, and it is significant that Senator Baucus was elected chairman of the International Trade Subcommittee of the Senate Finance Committee. Both of these men were critical of the Reagan administration's trade policy, and have repeatedly made strong demands on Japan.

2. In August of last year, after more than 4 years of debate, a comprehensive trade law was finally passed in the Congress. Some Japanese will find it hard to believe, but this law is not protectionist. For example, a variety of measures were specified to strengthen U.S. competitiveness, and emphasis was made on promoting the export of American products, rather than restricting imports.

As a concrete measure to promote exports, the United States Trade Representative (USTR) is required by the Super 301 section of the new trade law to indicate which countries are involved in unfair trade practices, and to report to the Congress on the particulars of the products involved by 31 May. No matter what the details of the report turn out to be, it is expected that congressional pressure will increase. This is because if the USTR does not specify the countries involved in unfair trade practices, she [Carla Hills] will be strongly criticized, but if names are cited, then the USTR must undertake negotiations with those countries to eliminate the designated unfair trade practices quickly.

3. There will be increased lobbying activities by special interest groups. If the United States Government takes no action to open up Japan's rice market, the Rice Millers Association (RMA) will demand new legislative measures from Congress. (The new chairman of the board of directors of the RMA is a former congressional staff member.) United States automotive manufacturers have criticized the way some Japanese car makers have countervailed the limits on exports to the United States (e.g. removing the back seats from passenger cars, and shipping them as trucks), and according to the INTERNATIONAL HERALD TRIBUNE of 25 January 1989, Congressman Dingell, chairman of the House Energy and Commerce Committee, has heard these complaints, and shows considerable interest. It is expected that

FBIS-EAS-89-140-S
24 July 1989

37

individual problems such as these will continue to be brought to the attention of the Congress.

4. The U.S. economy is expected to slow down under the Bush administration. In an article in THE ECONOMIST of 10 January 1989, Harvard University's Heizo Takenaka indicates the possibility of a recession, based on previous experience with Republican administrations. Although I do not have enough knowledge to evaluate such a claim, there are few who hold the view that the U.S. economy will be able to continue its strong expansion. According to a report issued at the end of January on the statistics for the 4th quarter of 1988, the real growth rate was 2 percent, but the trade deficit grew, and investment in plant and equipment, which had increased because of increased exports, has fallen.

Common sense would indicate that worsening of the U.S. economy would be a minus from the standpoint of congressional pressure on Japan.

5. As will be elucidated in this article, there is a tendency for congressional pressure on Japan to increase during years when there are no congressional elections, that is, in odd-numbered years. If this hypothesis is correct, 1989 will be a year of increased demands on Japan.

II. The Status Quo of U.S. Pressure on Japan

In spite of last year's repeated "concessions" by Japan to the United States regarding market opening in the areas of oranges, beef, and construction, it is thought that there will be even harsher criticism of Japan by the U.S. Congress.

Accordingly, there are two issues that the author would like to take up in this article. The first issue is whether or not Japan should take a positive position regarding the "external pressure" of the U.S. Congress on Japan, and use it to reform Japan gradually from within; to put it another way, to autonomously open markets and promote restructuring of the domestic economy. Since the arrival of Commodore Perry's ships, Japan has had a deeply rooted international image as a country unable to change its policies without external pressure. For example, in his book "Trading Places," former U.S. Commerce Department official Clyde V. Prestowitz, Jr. writes, "Relations between the United States and Japan have always followed one repeating pattern. First, the United States makes a demand on Japan to open its markets. After long, drawn out, boring, and inconclusive arguments, Japan offers countermeasures that at first appear to be a relaxation of restrictions, and America thanks Japan, calling Japan's new approach very progressive. However, it isn't long before the Americans come to the conclusion that the results are not as great as expected, so the Americans complain that a new barrier has been erected, and make new demands of Japan."

The second issue that the author is concerned with is whether or not there are problems with the manner in

which the U.S. Congress is exerting pressure on Japan, and whether or not congressional demands on Japan are viewed by the rest of the world as always correct and wise. In other words, there is a question as to whether or not the manner in which pressure is exerted on Japan is exacerbating frictions.

In order to answer these questions, it will be necessary to determine from a historical point of view what demands the U.S. Congress has made on Japan, and whether or not these demands have been satisfied. Accordingly, the author has used articles from NIHON KEIZAI SHIMBUN to analyze congressional pressure on Japan from 1976 to April of 1988.

Here, we must pay attention to the meaning of the term "pressure." If we play a little bit with logic, we come to the conclusion that this pressure is a means for the Congress to communicate its desires to Japan. Thus, "pressure" is defined as a means for conveying a message, and increased pressure signifies an increase in the number of desires to be communicated (this first effort at quantification may provoke some criticism from the experts).

The next thing that should be noted is that American sources, such as the Congressional Information Service [CIS] Catalogue, are not used here. There are two reasons for this. First, congressional documents do not sufficiently follow the resolutions that comprise one of the powerful means for exerting pressure on Japan (reports from public hearings are a different matter). Second, although it is said that both the quantity and quality of reportage on Japan in the U.S. media has increased, Japan is not covered in enough detail to serve as a subject of a survey.

For these reasons, the author decided to use NIHON KEIZAI SHIMBUN, which is thought to cover U.S.-Japanese economic relations in relatively fine detail. In other words, our study of pressure on Japan by the U.S. Congress is based on reports in NIHON KEIZAI SHIMBUN. Therefore, the author thinks that the number of bills and resolutions reported is smaller than the actual number. All of these limitations notwithstanding, 12 years of newspaper reportage on trends in the U.S. Congress has yielded some quite interesting data to answer the following questions.

1. What means does the U.S. Congress use to exert pressure on Japan?
2. How has Congressional pressure on Japan changed over the past 12 years? Has the pressure consistently continued to increase?
3. Has there been any fixed pattern to the pressure on Japan over these 12 years?
4. How would one generally characterize congressional activities relating to pressure on Japan?

FBIS-EAS-89-140-S
24 July 1989

38

(The paper upon which this article is based was presented at a Washington conference sponsored jointly by the International Financial Information Center of Japan and the Institute for International Economics in the United States. The author would like to thank the center, as well as Professor Ryutaro Komiya for the opportunity to write this article. Below, I would like to present my findings as well as the comments that it received.)

III. Eleven Results

1. It can be said that U.S. Congressmen use four main means for applying pressure to Japan.

a. Letters: Sending letters to the U.S. Government or to the Japanese Government to express opinions regarding special problems relating to Japan.

b. Press Conferences: A powerful means for exerting pressure is for congressmen to hold press conferences on special problems relating to Japan (there are many cases in which these press conferences are used to express dissatisfaction). The scene where Congressman Hunter (Republican of California) smashed a Toshiba radio cassette recorder in response to Toshiba Machine Co. Ltd's violation of the COCOM [Coordinating Committee for Multilateral Export Controls] restrictions, is still fresh in our memory. It must be added that the recent increase in visits to Japan by U.S. congressmen is not considered here, because we are limiting our discussion to activities within the United States.

c. Resolutions: One method of exerting pressure on Japan is to use resolutions to express the will of Congress regarding Japan. It must be noted that resolutions do not have the force of law, and even if ratified, they have no significance beyond that of a message.

d. Bills: Bills placed before the Congress are used to send a stronger signal to Japan than resolutions. The legal force of bills is used to get the executive branch of the government to negotiate with Japan to achieve the desired ends.

2. [Passage omitted] The number of cases of pressure on Japan, namely, letters, press conferences, resolutions, and bills, have steadily increased over the past 12 years. It is important to note that during the same period, the over-all number of resolutions and bills decreased by one-half. That means that those passed to put pressure on Japan are all the more prominent. The large number of bills and resolutions regarding Japan in 1981 is thought to be a result of the pressure on Japan for voluntary restraints on automobile exports to the United States.

3. [Passage omitted] Congressional pressure on Japan in the area of economic issues has increased every other year, namely, in 1979, 1981, 1983, 1985, and 1987. It

does not need to be pointed out that these odd-numbered years preceded congressional elections that occur once every 2 years (there are congressional elections that accompany the presidential elections that occur every 4 years, and there are off-year elections).

Actually, although this tendency was predicted to some extent, it was not expected that there would be such a clear pattern. This indicates that the source of the pressure on Japan is to be found in the constituent interest of the congressmen. [passage omitted]

On the other hand, this tendency does not necessarily appear in the area of security. In this area, congressmen that exert pressure on Japan base their demands on "good public policy," in other words, they assume an ideological stance.

4. [Passage omitted] Fluctuations in pressure on Japan do not reflect trends in the U.S.-Japanese balance of trade. Even in years in which there are increases in the U.S. trade deficit with Japan, the level of pressure on Japan is relatively low. This is indicated in the years 1982, 1984, and 1986.

Nonetheless, the deficit with Japan is well known as the greatest cause for the U.S. pressure on Japan.

When these results are combined with those of point three above, it becomes clear that congressmen who want to preserve or expand local interests exert pressure on Japan, using as an excuse the over-all trade imbalance with Japan (this is true even in cases where the congressman's demands have nothing to do with the imbalance).

In this sense, there is some basis for the claim that in the effort to open the market for 12 items, the most well known being oranges, beef, and rice, Japan's farmers have been sacrificed in favor of the automotive industry, which has sought a greater market share.

5. Even in times when the majority party in the Senate is the same as that of the President, pressure on Japan is not necessarily weakened. This contradicts the hypothesis that when the majority party in the Senate is the same as that of the President, the President has control over the Senate, thereby weakening the pressure on Japan. Even in 1981, 1983, and 1985, during the Reagan administration, when the majority in the Senate was held by the Republicans, there was a steady increase in the pressure on Japan.

6. Until 1980, congressional demands were made in the relatively gentle form of letters, press conferences, and resolutions, but after 1981, congressmen who were lobbied by special interest groups sought new ways of exerting pressure on Japan. Some of them took the initiative and advocated more effective techniques such as resolutions and legislation.

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FBIS-EAS-89-140-S
24 July 1989

39

7. The Senate has been more active in its pressure on Japan than the House of Representatives. There are three reasons for this: a. Procedural Issues

The Senate has a fixed number of members (100), and the House of Representatives has 435 members, and the congressmen have a great deal of freedom in regulating their legislative activities. In other words, since there is such a great difference in numbers, the procedures for proposing resolutions and bills are less complex in the Senate than in the House.

b. Leadership

In the Senate, pressure on Japan is principally led by two senators, namely former chairman of the Senate Finance Committee, Senator Danforth, Republican from Missouri, and current chairman of the Senate Finance Committee, Senator Bentsen, Democrat from Texas.

c. Constituent Interests

In recent years, the differences between the two houses of Congress have become increasingly ambiguous. There is no great difference between members of the House of Representatives, who represent the interests of the 500,000 persons in their districts, and members of the Senate, who are expected to consider the broader interests of America as a whole. One might go so far as to say that the Senate is becoming more like the House, so that senators, like their colleagues in the House tend to be ruled by the interests of their constituency.

8. Congressional pressure on Japan covers a wide range of fields, but the following tendencies can be observed. From 1976 to 1981, pressure on Japan had to do with restrictions on Japanese exports to the United States in the steel and automotive industries. By contrast, after 1982, there was increased pressure to open Japanese markets.

If a company in a congressional district was interested in exporting to Japan, it would take its case to its local congressman, who would respond by participating in activities that put pressure on Japan. In all probability, in cases such as this, congressmen find it easier to exert pressure on Japan than in cases where damage to competitive U.S. companies is claimed to be due to a flood of Japanese imports. The reason for this is that restrictions on imports of Japanese products are generally viewed as protectionist, while pressure to enter the Japanese market is more easily seen as an action that promotes free trade. This is also an indication that as American companies entered the 1980's, they slowly started to take exports seriously.

In addition, it is important to note that there has been almost no congressional pressure in the financial and exchange market policy areas, in which there is a considerable technical content. The executive branch negotiates with the Japanese Government in these fields, with little interference from the legislative branch.

9. A certain pattern can be found in congressional pressure on Japan. The general tendency is first for a congressman to hold a press conference, then to send a letter, and if a satisfactory response is not received from the Japanese side, a resolution or bill is introduced.

Let us consider a concrete example, namely, the case of Senator Murkowski, Republican from Alaska, who was interested in opening up the construction market in Japan. As chairman of the Senate Subcommittee on East Asian and Pacific Affairs, he held a press conference on 23 June 1986 to demand that Japan open its market to U.S. construction firms, and the following day, 24 June, two of his colleagues in the Senate sent a letter to the USTR demanding that a study be made on the exclusionary nature of Japan's construction market.

Since such pressures did not have the desired effect on U.S.-Japanese negotiations, Senator Murkowski introduced a resolution to restrict the activity of Japanese construction firms in the U.S. market, and on 28 October 1987, the resolution passed in the Senate by an overwhelming margin of 96 to 1.

10. Surveys have shown that the recipients of letters from congressmen have changed after 1982. Before 1981, all letters were addressed to the U.S. Government, and especially to the President, but it is interesting to note that after 1982, most letters have been addressed to the prime minister of Japan. It is thought that in order to increase the effectiveness of the letters, congressmen have decided to send them directly to Japanese policy-makers on the highest level, rather than through the executive branch of the U.S. Government.

The reason why letters addressed to the prime minister increased during the Nakasone administration is not only that the calls for market-opening became stronger, but also because U.S. congressmen expected results from Prime Minister Nakasone's leadership, and from his top-down decisionmaking style.

11. The final point has to do with the relationship between pressure and timing. Congressional pressure is generally applied when U.S.-Japanese negotiations are underway, so as to amplify their effect. An example is during the U.S.-Japanese steel negotiations on 7 January 1985. One of the congressmen from a steel producing state, Senator Heinz, Republican from Pennsylvania, introduced a resolution requiring import restrictions on foreign steel. Another example took place on 29 April 1987, during Prime Minister Nakasone's visit with President Reagan. The House of Representatives voted to add the infamous "Gephardt amendment" to the Omnibus Trade Bill. Also, on 11 June 1985, when Japanese Defense Agency Director General Kato was having discussions with U.S. Secretary of State Shultz, the Senate passed a resolution demanding that Japan revise its defense policy.

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24 July 1989

40

The reason why Japanese policymakers are upset with the Congress has to do with the methods of applying pressure used by the congressmen. It is natural that members of Congress feel that these methods aim at bringing about the greatest effect, but for Japan, they are nothing but "offensive."

IV. Congressional Pressure on the Executive Branch

What are the issues encountered in congressional pressure on Japan, and how should Japan react to these pressures? Before discussing these matters, let us briefly touch upon the significance this type of congressional action has for the executive branch of the United States Government.

It is common knowledge that the role of the Congress in commercial negotiations goes no further than to authorize the participation of the executive branch in such negotiations. It seems to have become more apparent in recent years that the Congress has, to a surprising degree, limited the policy and activity of the executive branch in commercial affairs, by a variety of means, but principally through legislation.

The most prominent example of this is the Omnibus Law on Trade and Competitiveness of 1988, mentioned earlier. There is no doubt that the Super 301 provision in that law employs a number of protectionist measures. The problem is that the Congress is trying to restrain the executive branch in this area. The Reagan administration came under considerable congressional fire for its "no-policy trade policy." The result of this criticism was a movement to reform the trade laws.

However, it is not necessarily the case that the executive and legislative branches are always at odds with each other regarding trade issues. There have been times when the administration has criticized the Congress for excessive pressure methods, but this same pressure has served to bring about progress in negotiations not only with Japan, but with other countries as well. The administration has used congressional pressure to its advantage by using it as a sign that "congressional protectionism has raised its head again."

For example, the issue of export restraints on Japanese cars, a big political problem that arose immediately after the start of the Reagan administration, is a typical example. Trade Representative Brock, who arrived in Japan in May of 1981 for final negotiations, intended to use a bill in the Congress to massively cut Japanese car imports to the United States, which was introduced to Senator Danforth, as a "lever" in his discussions with Japan. The end result was an agreement by Japan that it would impose "voluntary restraints" on car exports to the United States, limiting such exports to 1.68 million units.

It goes without saying that MITI [Ministry of International Trade and Industry] and the Japanese auto makers

decided that the cost of "voluntary restraints" would be far less than if the Congress had imposed cuts on imports of Japanese cars. After the negotiations, Brock said that the success of the negotiations was due to joint action of the administration and the Congress.

This cooperation between the legislative and executive branches, or the use of the Congress by the administration, has occurred from time to time. The extension of voluntary restraints on cars, negotiations on oranges and beef market liberalization, and the FSX [fighter support experimental] issue, are more recent examples.

V. Proposals Made to Congress

Let us now return to the issues we originally set out to discuss. If the pattern of pressure on Japan observed over the past 12 years continues on into the future, what effect will it have on U.S.-Japanese relations?

Before we say anything else, we must note the regrettable fact that without the pressure on Japan to open its markets, this "external pressure," originating primarily in the U.S. Congress, Japan would not have been able to liberalize its markets in goods and services.

This can be readily seen in the example of metal bats and the construction industry, which the Americans have tried many times to open up. Each time pressure was exerted on Japan, it was forced to open the door, little by little. It would not have done this voluntarily. The same pattern can be seen in efforts made from 1985 to 1987 to permit foreign lawyers to practice in Japan, and in many other cases.

However, the "success" of this American pressure on Japan has caused a number of serious problems in Japan. One of these problems is the increased anti-American feeling among the general population in Japan.

According to an opinion survey taken by the Yomiuri-Gallop Company at the end of 1987, the number of Japanese who characterized U.S.-Japanese relations as "bad" had increased from the 1986 figure by 7 percent, to 26 percent. The number of Japanese who characterized U.S.-Japanese relations as "extremely good" or "good" has fallen from the 1986 figure by 9 percent, to 32 percent. This trend has not changed in recent surveys. Dr Watts of Potomac Associates, who just recently arrived in Japan, emphasizes that anti-American feeling in Japan is greater than anti-Japanese feeling in the United States.

In addition, criticism of the United States from Japanese politicians, bureaucrats, intellectuals, and journalists, has become more common. There is no doubt that mutual criticism is necessary to maintain healthy U.S.-Japanese relations, but recently, it is more common to hear emotional arguments like "Japan is not bad," and "America is the one that's bad."

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FBIS-EAS-89-140-S

24 July 1989

41

A special problem is the criticism of the United States on the part of bureaucrats involved in negotiations. This is a serious problem for U.S.-Japanese relations which should not be overlooked, and is bound to occur again in the future. For example, former MITI Councilor Makoto Kuroda said, "The U.S. Congress is 8 months behind reality." Such a statement is challenging, but is not unusual at all among the bureaucrats at Kasumigaseki [Foreign Ministry office]. (See SHUKAN BUNSHUN, 23 June 1988). The question is, whether or not such dissatisfaction and criticism will remain in the "institutional memory," despite changes in personnel.

As a result of the diversification of demands from the United States, it is significant that, especially since the beginning of the 1980's, the so-called "domestic agencies," such as the Ministry of Justice and the Ministry of Construction, which have not had much experience in negotiations with the United States, have been involved in U.S.-Japanese trade frictions.

The officials of these agencies tend to view policy issues from the domestic standpoint, so that even if they can be persuaded by reason, their emotions cannot be moved to accept compromise with the American demands. Actually, quite a few Japanese negotiators have felt that the American demands were unreasonable.

This same feeling is found among private-sector negotiators as well. With increasing U.S.-Japanese interdependence, frustration in dealing with the United States has grown.

The second problem assumes the first one. With the increasing number of concessions made to the United States over the past 12 years, there is the feeling that there is almost nothing left for Japan to give. For the sake of livening the discussion, the content has become increasingly simple. The author pointed this out at the conference in Washington, but the conference chairman, Dr Fred Bergsten, claimed that "that is not the case." What the author meant was that at least as far as "visible" merchandise trade is concerned, the situation in Japan is comparable to that of the United States and Europe, both in terms of the remaining import restrictions and in terms of tariff rates.

In June of 1988, a schedule was announced for the liberalization of agricultural products, foremost among them being oranges and beef. The only remaining import restrictions were for rice, for which there are domestic political problems for Japan.

Of course, there are still nontariff trade barriers in Japan in the distribution system and in the service sector, but it is important to note that even if Japan were to remove all barriers and open up its markets in these areas, it would have to be done voluntarily, without external pressure.

The congressional pressure tactics described above certainly cannot be considered as being in the best taste.

Americans should understand that such pressure by the U.S. Congress will inevitably arouse Japanese nationalism, and have a negative effect on long-term U.S.-Japanese relations.

Finally, I would like to suggest to the Americans, especially as they begin a new session of Congress, that they recognize their excesses, and I would like to make the following four proposals. Since it will be difficult to completely eliminate frictions, we should look for a way to ease these frictions.

First of all, when the Congress and the administration send messages to Japan, they should first make sure that their messages are in agreement. The reason for this is that when Japan has received various messages from the United States in the past, it has taken great pains to try to figure out what the true meaning was. The following is a case in point.

On 10 December 1987, then Democratic Majority Leader Byrd (from West Virginia), together with his colleagues, sent a letter to Prime Minister Takeshita, asking for an extension of the voluntary restraints on car exports. However, 10 days later, Takeshita received a letter saying something completely different. A letter from Congressman Gibbons (Democrat from Florida), chairman of the Subcommittee on Trade of the House Ways and Means Committee, demanded that the Japanese Government completely remove all restrictions.

In September of 1988, when the Rice Millers Association (RMA) asked the USTR to do a survey of the exclusionary nature of Japan's rice market, based on Section 301 of the 1988 trade bill, Mike Mansfield, ambassador to Japan, immediately predicted that the Reagan administration would turn down the request. However, Clayton Yeutter, the trade representative of the same administration, adopted a wait-and-see attitude until the end of October, when the direction of the election became clear.

Secondly, I would like to suggest that the Congress send messages to Japan through the administration, rather than directly. The reason is simple. If the communication routes are coordinated, there should be a smaller possibility of Japan misunderstanding America's message.

Thirdly, I would like to suggest that the Congress show restraint in its bills and resolutions relating to Japan. The Japanese mass media have been reporting in detail the Congressional pressure on Japan that comes in the form of resolutions and bills. In a sense, the female congressional staffers have been pointing out to the Japanese mass media that disputes between the United States and Japan are becoming more intense. However, according to these staffers, the large number of bills and resolutions are simply messages to the home districts of the congressmen, and in many cases, there is little possibility of their being passed.

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FBIS-EAS-89-140-S
24 July 1989

42

In other words, Japan's mass media are over reacting. Another indication of this is to be found in the U.S.-Japanese Advisory Committee report, which was submitted to the governments of both countries in 1984. The report states, "The resolutions and bills introduced in the Congress are often interpreted in Japan as important changes in U.S. Government policy, even in cases when they actually are not."

The author does not subscribe to that opinion. There is no doubt that the Japanese news media overrate the role of the Congress (and the author has thought so in the past as well). However, the effect of resolutions and bills introduced in the Congress is far from small, and is in fact, quite large. This is because most of these resolutions and bills serve to reinforce the image of Japan as an "unfair country" in the minds of Americans in many congressional districts. In other words, there is the possibility that these resolutions and bills will misinform the American people, who are not familiar with the situation in Japan.

Fourthly, I would like to suggest that members of Congress try to avoid as much as possible giving expression to the limited interests of their constituencies. Senators especially should formulate policy from a wider perspective.

In 1985, Senator Wilson of California (Republican) asked the Government of Japan to lower tariffs on California wine. Likewise, Senator Danforth requested in 1987 that Japan lower its tariffs on pet food. At that time, most people in the Japanese Government did not realize that Senator Danforth has ties to management in a leading pet food company in the United States. In the same year, Danforth expanded his efforts on behalf of local interests, this time, the aerospace industry.

In 1987, it was reported that the Japanese Defense Agency was considering domestic production of the new jet fighter plane, the FSX. Senator Danforth strongly urged the Japanese Government to purchase the F-16 from General Dynamics or the F-15 from McDonnell Douglas. Both companies are in Missouri, the state that he represents.

The Nakasone cabinet gave up the idea of domestic production, and decided to develop jointly with the United States a plane based on the General Dynamics F-16.

In the view of some sophisticated political thinkers, the Defense Agency and some leaders of Japanese industry are still unhappy with the heavy-handed manner of the Americans.

The leadership of both the Democratic and Republican Parties should be strengthened, so as to limit the activities of individual congressmen. For example, the parties should exercise some degree of control over the policy positions of their members in the Congress.

VI. External Pressure and Japan's "Internationalism"

The author's paper, which was presented at a joint conference of the International Finance Information Center and the Institute for International Economics (IIE), has been summarized above. The quantification of congressional pressure on Japan and the author's four suggestions were seen as a misunderstanding of the American political system and as extremely unrealistic, and generated sharp comments from several conference participants. The author would like to share some of these comments with the readers, so as to provide them with some food for thought on the future of U.S.-Japanese relations.

The following is an example of some of the opinions that were expressed. There is the view that the complexity of the signals coming from the Americans actually affords Japan some maneuverability in its foreign policy, which is good for Japan.

Such comments certainly seem to be persuasive, but in order for Japan to conduct a rational policy and decisionmaking process, it is better to keep the signals to a minimum. In trade matters especially, when there are policy differences between the executive branch, which carries on the negotiations with Japan, and the Congress, the Congress tries to strengthen its position, which creates problems for the executive branch in its negotiating stance. That is because the Administration has to constantly keep an eye on what direction the Congress is headed.

Some conference participants also commented on patterns of congressional pressure on South Korea, the NIE's (newly industrializing economies), and the EC countries. It is difficult to make comparisons, but such efforts might yield interesting results.

The most interesting idea was that presented by Professor Richard Cooper of Harvard University, Professor Koichi Hamada of Yale University, and Professor Takayuki Ito of Hitotsubashi University, namely, that congressional pressure on Japan has not necessarily been negative. They point out that Japan has used this pressure to restructure its domestic economy, and to promote liberalization. In their view, if there had been no such pressure, Japan would not have been able to "internationalize."

Professor Cooper prefaced the foregoing conclusion with the remark that the Japanese side had said that it wanted the pressure (this information probably comes from the time when he worked for the United States Government).

There is no time to go into details, but this is evidence of how intermeshed modern international society has become. The author has repeated his position numerous

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FBIS-EAS-89-140-S
24 July 1989

43

times, so as not to be misunderstood: Unfortunately, Japan would never have opened up, were it not for pressure from outside.

However, as pointed out before, Japan has only an extremely limited number of cards left, and most of these probably have to do with the social and political system, such as the distribution system and legal system. In other words, the only areas that remain are ambiguous ones in which other countries should not meddle.

If the Congress increases its demands in these areas, using the same insensitive methods as it has in the past, the costs will be higher than one can imagine.

On the other hand, although Japanese criticism of the United States would be a contradiction, the desire for external pressure on the part of the bureaucracy, financial circles, and the mass media is deeply rooted. The author would like to ask these people, "Given the manner in which the Congress has exerted pressure on Japan, do you still think that this external pressure should be used to reform Japan from within?" The author thinks the answer is no. To use an emotional expression, as an independent country, we seem to have no pride, only shame. Why do we put up with the pattern that has been repeated over the past 12 years?

The more our economic activities go beyond national boundaries, the weaker the concept of the nation becomes. Japan must determine its future course for itself.

If the removal of nontariff trade barriers, the opening of markets, and the creation of a more open social system from an international perspective are good for the people of Japan, then Japan itself should plan and execute this opening. It cannot be otherwise.

This feeling becomes deeper when one considers the issue of burden sharing discussed by President Bush and Prime Minister Takeshita at their meeting in February. Japan is now overwhelmed with demands not only from the United States, but from other Western countries as well: to increase foreign aid, to shoulder some of the burden of the accumulated debt in Central and South America, and to strengthen its defense.

There are, of course, many Japanese who criticize America's role in Japan's defense, as well as the increases in unconditional foreign aid, but given the current situation regarding America's demands, namely, Japan's yielding to external pressure, this form of burden sharing is not favorable for Japan. The Japanese Government should make it clear to the people that it is in their future interests to anticipate future demands (not only from the United States, but those from developing countries as well), and take action on them. In this sense, it is absolutely necessary to institute the type of burden sharing described in the "Maekawa report."

At the close of the conference, after the author had taken great pains to analyze congressional pressure, Prof Fred Bergsten made the incisive comment that the results were a failure. Pressures on Japan increased in 1987, but it is clear that in Washington, D.C., the protectionist mood was not as strident as in 1986.

This is due to a perception gap between the party applying the pressure and the party receiving the pressure. Despite Prof Bergsten's comment, as far as the author is concerned, the view from Japan is correct. There was a great deal of discussion among the participants regarding Professor Bergsten's comment, and psychological elements played a great role in this discussion.

In any case, the author realizes that it would be very difficult for the Congress to implement his four proposals. The reason for this is the strict checks and balances between the legislative and executive branches of the United States Government. Congressmen are not as strictly bound to the policies of their parties, as they are in parliamentary systems like Japan and Britain. Therefore, American politics can be characterized as a system with 535 political parties, the total number of members of the Senate and the House of Representatives.

Nonetheless, we must repeat that under this system, the congressional pressure on Japan has not always been positive, and if the same pattern of pressure continues, the negative aspects will increase. United States congressmen are certainly studying Japan (see my article in the December 1987 issue of CHUO KORON, titled "This Is How the U.S. Congress Views Japan"). However, while Japan needs "internationalization without external pressure," the United States Congress must realize that their behavior may have unintended consequences.

*** Maintaining Voluntary Steel Export Restraints**
41060129 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 6 Jun 89 p 13—FOR OFFICIAL USE ONLY

[Text] Japan's Steel Industry Association is concerned about whether or not the present ceiling on exports to the United States can be maintained. The Voluntary Restraint Agreement (VRA) on steel exports will expire at the end of September. While the elimination of restraints is really desired, given present circumstances and the United States' hints at possible reduction of the export ceiling, extension of the agreement is sought. Negotiations between the U.S. and Japanese Governments are far behind schedule. Those related to the industry are awaiting the start of negotiations and hoping that the current export ceiling can be maintained.

In October 1984 the VRA was instated for a 5-year period to relieve U.S. steel makers. During this period, conditions improved worldwide and the U.S. steel industry's record rapidly improved. In fiscal 1988 USX, Bethlehem Steel, Inland Steel Industries, AMCO, and

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FBIS-EAS-89-140-S
24 July 1989

44

National Steel even realized an increase in profits. Internationally, however, their competitive strength is still low. Therefore, the AISI [American Iron and Steel Institute] sent a position paper calling for the extension of the 5-year voluntary restriction agreement to members of the U.S. Government's Council of Economic Advisers and to the main members of both houses of Congress. Around the world there are many countries where steel industries receive subsidies, and dumping is rampant. The report says that given these conditions the U.S. industry needs another 5 years of voluntary restraints in order to recover.

As for Japan's industries, the trade surplus with the United States is not really declining and friction over semiconductors and communication equipment is becoming heated. Thus, there is a strong feeling that we can't start behaving as if "the U.S. steel industry has recovered its strength." At New Japan Steel officials in charge of planning state that "voluntary restrictions to the United States cannot be ended. At issue is the nature of those restrictions."

In contrast some companies are worried about whether or not the present export ceilings will be maintained in negotiations between the two countries' governments. The United States has voluntary restraint agreements with some 20 countries, including Japan. An "Apparent Steel Consumption" of 18.5 percent—a measure obtained by adding imports of steel to U.S. steel production and subtracting exports from that—is allotted to foreign countries. Within that Japan has a 5.9 percent ceiling.

Last year, Japan's exports fell well below that ceiling. Although there is a 5.6 million ton ceiling, the total amount of exported goods falling under the VRA was only about 4.1 million tons. According to sources related to the industry, the U.S. private sector organization, DRI [expansion unknown], in its forecast, which is published every second year and serves as the basis for determining real export volume, "indicated that in the second half of last year there was a sudden rise in demand and shipping could not keep pace with it. The industry has exhibited self-constraint because if too much is exported, the market could become glutted and chaotic."

On the other hand, there is also the view that "because domestic demand was high, the industry did not rely on exports to the United States." The high demand for steel that emerged as a result of the expansion of domestic demand is still continuing, so "it is certain that this year the industry will also fall below the export ceiling."

From the U.S. perspective, there are many countries hoping to increase their export ceilings to the United States. Therefore, it is not unwarranted for the U.S. Government to consider reducing Japan's ceiling in order to increase the export ceilings of other countries. It is said that there are presently sources in the United

States who are hinting that there will be a reduction of Japan's export ceiling. From Japan's perspective, however, conditions are only temporarily sluggish. Japan desires to maintain the current export ceiling to the United States—a consumption hungry country.

Because the USTR's [U.S. Trade Representative] deputy representative has not yet been officially approved and MITI [Ministry of International Trade and Industry] is undergoing some changes, it is not possible to enter into serious negotiations. In the future, however, negotiations will begin between Japan and the United States over whether or not voluntary restraints should be extended. During these negotiations, it will be decided how to handle export ceilings as well as how long voluntary restrictions should last. The time limit for the negotiations is the end of September. Five years ago, however, the decision of when to make the voluntary restrictions effective was not made until March of the following year. There are also the complications of tackling voluntary restrictions retroactively to last year October. Until things are decided individuals associated with the industry will continue to feel uneasy.

Trade Policy Record Seen as Inviting Reprisal
OW0107034689 Tokyo THE JAPAN TIMES
in English 30 Jun 89 p 20—FOR OFFICIAL USE ONLY

[Editorial: "Market Opens, Perception Gap Stays"]

[Text] After 10 days of intense negotiations, Japan and the United States have managed to resolve one of the urgent trade disputes which have posed a threat to the relationships between the two trade partners. In the last-ditch attempt to avert a row through talks in Washington on Wednesday, Japan accepted almost in its entirety the U.S. demand that this nation remove trade barriers protecting its cellular telephone market.

This episode in the long series of trade frictions over the Pacific has a few "first." It was the first major confrontation over a specific bilateral trade issue between the two nations since the administration of President George Bush came to power last January. It also was the first trade negotiation held under the threat of retaliation based on the controversial Section 301 of the 1988 Omnibus Trade Act.

The latter "first" is far more consequential. Acting on a complaint from Motorola Inc., the Bush Administration informed Japan that it would retaliate with the imposition of duties up to 100 percent upon 54 items, including cordless telephones and facsimile machines, and four areas of services if an agreement could not be reached by July 10. Therefore, it was essentially a matter of whether Japan should swallow the U.S. demand or not.

This approach by Washington naturally evoked repulsion from the Japanese government, which at first said it would not hesitate to take the matter to GATT (General

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24 July 1989

45

Agreement on Tariffs and Trade). But the government chose to settle the friction through talks for fear that a row over this single issue could lead to an overall trade confrontation under the prevailing circumstances. Once the negotiations started, there apparently arose the strong concern that America's imposition of the retaliatory duties as a result of a failure in the negotiations could give rise to highly emotional reactions among the Japanese, posing another political headache to the government of the Liberal-Democratic party (LDP), which has its hands full of problems.

These passive considerations seem to have been the motive factor behind special Japanese envoy Ichiro Ozawa's last-minute agreement accepting most of the U.S. requests. In reviewing the negotiations at a Washington press conference, Mr. Ozawa reiterated his belief that Japan had not violated a MOSS (marked-oriented, sector-selective) agreement as claimed by the U.S. And he warned that an attempt to solve an issue through this means (meaning resorting to Section 301 to settle a trade question) will only stir mutually hostile sentiments between the two peoples, not helping to bring about a settlement satisfactory to both sides.

His statements came in contrast with U.S. Secretary of Commerce Robert A. Mosbacher's the specificity in this agreement is a healthy plus for our trade relationship with Japan and should serve as a model for future negotiations."

Mr. Ozawa sounded as if he was saying that Washington used the unilateral legal provision to crack a foreign Market open for the interest of an American firm while Mr. Mosbacher seemed to allow the interpretation that the U.S. considers it best and most effective to use this device. Beyond this gap in basic attitude is seen an even clearer collision course.

Now that the U.S. trade negotiators have had the taste of using the unilateral weapon of Section 301, it seems urgent that both nations jointly try to rebuild a basic framework for trade negotiations that will not plant the seeds of such strong resentment as the just-ended talks held under the direct threat of retaliation.

The need to further open the Japanese markets to foreign goods and services is another matter, however. Japan's posture on trade issues over the past two decades has almost convinced its trading partners, especially the U.S., that Japan does not move to remove trade barriers until it comes under direct and strong pressures from abroad. This has been largely responsible for inviting reprisals.

It should not be lost in resentment that the agreement in Washington to open the Japanese market to Motorola will, at the same time, open up opportunities for many Japanese to have greater options in using telecommunications systems.

Admiral Crowe Slated To Visit in August
OW2406080989 Tokyo SANKEI SHIMBUN
in Japanese 22 Jun 89 Evening Edition p 1—FOR
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[Text] A source close to the Japan-U.S. security relations disclosed on 22 June that Admiral Crowe, chairman of the U.S. Joint Chiefs of Staff, is scheduled to visit Japan and hold talks with Chairman Ishii of the Joint Staff Council and others in early August.

Joint Chiefs of Staff Chairman Crowe paid an official visit to the Soviet Union from 12-22 June as the first highest ranking U.S. officer to visit the Soviet Union. He signed a "treaty to prevent military confrontation" with Moiseyev, Soviet chief of General Staff, and he also inspected various facilities and equipment of the Soviet forces.

Chairman Crowe sent a message to the Japanese side to explain the details of his talks with then Soviet Chief of General Staff Akhromeyev during the latter's visit to the United States last summer and also the Soviet reactions. It is believed that this time, Admiral Crowe will explain in detail the talks held with the Soviet side, the military facilities and equipment, and the U.S. position.

Since the signing of the treaty on the complete abolition of intermediate nuclear force (INF), the United States and the Soviet Union have activated their exchanges in the military field. Following Chairman Crowe, Admiral Trost, chief of Naval Operation, and General Vuono, chief of the Army staff, are also scheduled to visit the Soviet Union. Meanwhile, it is reported that Soviet officers at the same level are also scheduled to visit the United States.

In this connection, it is observed in some quarters of Japan that the United States and the Soviet might bypass Japan in promoting their exchanges. However, the chairman of the Joint Chiefs of Staff's scheduled visit to Japan following his visit to the Soviet Union has aroused attention because this will be a golden chance for Japan to sound out U.S. basic strategy.

Soviet Union

Firms To Set Up Joint Company in Sakhalin
OW2106145289 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 17 Jun 89 Morning Edition p 8—FOR
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[Text] Four firms including Nichimo, a major fishing net company, have reached an agreement with the Fishery Corporation of Sakhalin Oblast in the Soviet Far East to set up a joint concern designed to import crabs and catch and purchase Alaska pollacks. The joint concern is expected to be established at Sakhalin in July at the earliest. This project will represent the second-largest

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24 July 1989

46

joint venture in the fishery field; the largest is a pollack-processing project to produce ground meat, in which Taiyo Fishery Company is participating.

The joint concern will be capitalized at 1 million rubles (about 210 million yen) with the Soviet side financing 51 percent and the Japanese side, 49 percent. Nichimom aims to import crabs and increase their sales through the joint venture.

China

Government Wants To Resume Consultations
OW0507094089 Tokyo SANKEI SHIMBUN
in Japanese 3 Jul 89 Mornig Edition p 1—FOR
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[Text] On 2 July, the government firmed up its policy to make a proposal to the Chinese side for a resumption of bureau chief level consultations in the near future. This is to seek the Chinese response toward the establishment of peace in Cambodia.

The Japanese Government has been virtually suspending high-level official government personnel exchanges with China since the start of the crackdown on pro-democracy movement. However, the government has decided to resume working-level contact with China as soon as possible, holding that "it became necessary," according to a top Foreign Ministry official. The government still wants to maintain a policy of suspending ministerial level exchanges for the time being.

The government is closely watching for whether or not China will attend the "International Conference for Peace in Cambodia," slated to be held in early August in Paris. A framework for the establishment of peace in Cambodia will be formed at the conference. Also, intensive discussions will be made on such issues as 1) the withdrawal of foreign troops from Cambodia, 2) the establishment of an international monitoring organization, and 3) the formation of a framework for future the Cambodian government. At the same time, the conference will make decisions on the treatment of the Pol Pot faction.

The greatest attention will be focused on the response of the Chinese Government which has thus far supported the Pol Pot faction. In particular, the degree of international criticism against China will be inevitably intensified and it will put a damper on the movement for establishment of peace in Cambodia should the new Chinese leadership, which suppressed the prodemocracy movement by force, clarifies more explicitly than before to support the Pol Pot faction.

Thus, the Japanese Government, which takes clear stand to oust the Pol Pot faction, wants to convey the aforementioned concerns to the Chinese side. At the same time, the Japanese side wants to emphasize the negative effect of a rigid diplomatic attitude. The government plans to make a proposal to the Chinese side to hold

bureau chief-level consultations in either Tokyo or Beijing sometime between mid-July, time the summit meeting of advanced countries (Arch Summit) ends, and early August. According to Foreign Ministry sources, the Chinese Government is also "studying measures" regarding the Cambodian issue and reportedly China wants to coordinate opinions with the Japanese side.

The Japanese side postponed all plans for dispatching 14 commissions for technical cooperation (ten for development investigations and four for technical cooperation) to China in June. In addition, a "Meeting for Sino-Japanese Technical Exchanges," scheduled for late May and to which bureau chief class officials planned to attend, was also suspended. Likewise, government-level exchanges between Japan and China are at a standstill.

Cautious Approach Toward Relations With PRC
OW2706011089 Tokyo MAINICHI SHIMBUN
in Japanese 25 Jun 89 Morning Edition p 3—FOR
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[Text] The CPC Central Committee has decided on its new leadership lineup with Jiang Zemin as the new general secretary at its fourth plenary session. Concerning this decision, a Foreign Ministry source holds that "an end has been put, both in name and reality, to the unusual situation that has lasted for 2 months" and that "the hardliners have taken the initiative in controlling the situation." And since no anti-foreign tone, such as denunciation of the United States, is noted in the communique, the same source expects that the Chinese situation will develop toward stability along the course of international public opinion. However, since there are still many unknown factors, including new General Secretary Jiang Zemin's views of Japan, it will probably be some time before Japan-China relations, including economic cooperation, return to normal.

The Foreign Ministry source holds that since there are still many factors concerning the new Chinese leadership, such as new General Secretary Jiang's leading capabilities, that must be analyzed, Mr Deng Xiaoping will probably increase his influence for the time being. Meanwhile, on the view that the new leadership is "the executive organ of the conservatives," the same source holds that "there is no impression that the so-called conservative faction has been revived, and there seems to be no change in the basic nature of the reformist leadership." And the dominating view is that despite intensified ideological control, the reform and open orientations that have started with positive introduction of foreign investments under the Zhao Ziyang leadership, including the strategy for coastal development, will be generally followed.

According to a Foreign Ministry analysis, Mr Jiang Zemin has been specially promoted to the post of general secretary, bypassing the political bureau standing committee because of opposition within the party to Mr Qiao Shi, who was seen as the likeliest candidate, and because China wants to give foreign nations a new image with the

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FBIS-EAS-89-140-S
24 July 1989

47

appointment of Mr Jiang Zemin who is not directly connected with the recent Tiananmen incident.

As conditions for normalizing Japan's relations with China, including dispatching a study group on economic cooperation to China, the Japanese Government has so far listed the following: 1) new Chinese leadership lineup, 2) future development in the reform and open policies, 3) lifting of martial law and restoration of public peace and order, and 4) trends in the international community. In this connection, the announcement of the new leadership lineup can be taken as the first step toward the normalization of relations, and it is also viewed that "martial law will probably be lifted a little earlier" (according to a Foreign Ministry source). However, there are still many unknown factors such as the fate of students and workers who have been arrested during the intensified suppression of the pro-democracy movement. Therefore, it is observed that the government will try to form a clear view of the situation with caution while watching the measures being taken by the European nations and the United States.

Japanese Businessmen Returning to China
OW2406045889 Tokyo MAINICHI DAILY NEWS
in English 22 Jun 89 p 12—FOR OFFICIAL USE ONLY

[Text] The United States announced new economic sanctions against Beijing on Wednesday, but large Japanese trading companies are disregarding the advice of the Foreign Ministry and the possibility of international criticism as they stampede back to China almost as fast as they left two weeks ago in the wake of the Tiananmen Square massacre.

Among the largest trading companies, Mitsubishi Corp. has already sent back 18 of the 30 personnel it had stationed in China. C. Itoh & Co. has returned four out of 30, and Sumitomo five out of 31. Marubeni's five Japanese employees stayed on in China in spite of the killings.

While the Japanese Government hasn't placed any sanctions on China, the Foreign Ministry has asked Japanese companies to practice "self-restraint" and not send their employees back just yet.

Foreign Minister Hiroshi Mitsuzuka said Tuesday, "(Going back to China) is not a good idea from the international point of view."

But one 29-year-old businessman waiting to board a Japan Air Lines flight to Beijing this week offered a justification for the reversal of the exodus.

"Japanese businessmen who return to China will be criticized," he said. "But China is far more important to Japan than it is to America or Europe. We can't just cut off our relationship that easily."

In fact while much of the world is shunning China to protest the brutal shooting of civilians in early June, the

Japanese Government has made no move towards freezing its official development assistance (ODA) projects in China estimated to be worth 500 million dollars a year—almost 75 percent of the foreign aid China receives.

This is the carrot at the end of the stick that is sending many Japanese businessmen back to Beijing—the possibility of getting a piece of the massive ODA pie, even though many foreign countries may consider the stampede an indecent interval after the pro-democracy massacre.

For example, none of the trading companies want to lose the ground gained since February when a study group of Chinese environmental officials visited Japan to discuss a 10-billion-yen ODA project to build an environmental pollution research center.

At that time, the large trading companies competed fiercely to get a few minutes with the members of the six-person Chinese study group to make their pitches to be included in the project.

A Mitsubishi official said that a rival trading company had snatched up a hard-won meeting that had been set up with one of the Chinese representatives.

A spokesman from the rival concern countered, "in order to do business in China, you have to have connections with someone in power. We were desperate to have that interview."

Therefore, it seems that the trading companies are more worried about losing valuable Chinese Government connections than meeting the approval of the Japanese Government or foreign critics.

"We would like to find out who's running things in China now," one trading company employee said while waiting for his plane to Beijing. "Our company could be the most useful to the Chinese Government in the ODA project."

Another businessman who was also returning to China said, "A lot of ODA money goes to China, and there's broad spectrum of work. For those reasons alone, we can't cut off our ties with China."

The second largest foreign aid donor to China after Japan is West Germany which gives about 50 million dollars a year—one-tenth of Japan's total.

Japan is also China's second largest trading partner with 18.9 billion dollars in bilateral trade last year. Hong Kong ranks first in trade with Beijing.

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FBIS-EAS-89-140-S
24 July 1989

48

Further on Return of Businessmen

OW2606071989 Tokyo THE JAPAN TIMES
in English 25 Jun 89 p 2—FOR OFFICIAL USE
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[Text] Over 230 Japanese business people are back at work in Beijing against the Japanese Government's advice, a Foreign Ministry spokesman said Friday.

Spokesman Taizo Watanabe told reporters that as of Thursday 236 Japanese doing business in Beijing had registered with the Japanese Embassy.

"The number ... is not as large as the newspapers give the impression," Watanabe said.

Officials said that also in Beijing as of Thursday were 25 Japanese students and teachers, 8 overseas volunteer workers, 25 airline employees, and 65 members of the press corps.

Watanabe added that about 50 embassy employees remain in Beijing. Family members and "some women employees" of the embassy who were evacuated to Japan have not returned, he said.

The spokesman said he saw "no evidence" of Japanese business people going back to China and not checking in with the embassy.

The statement was at odds, however, with one made recently by a top official at the ministry, who said business people were streaming into China "in the guise of tourists."

Questioned on a complaint from Eihiro Saito, chairman of the Federation of Economic Organizations (Keidanren), that those going back to China are being unfairly judged as "economic animals," Watanabe said the Foreign Ministry has not yet "confirmed" the statement.

But he said the government is happy to answer inquiries about the "real intent" of its call on business people not to return to China.

"Our intention is that the situation in China is yet to be clearly observed and we have not yet withdrawn our warning to Japanese businessmen about being cautious in going back to China," the spokesman said.

"If they have to go back they should go back at their own risk and responsibility," he added.

He claimed the media has given prominence to "extreme views" of opposition to the government's evacuation policy when in fact many Japanese business people are "quite worried" and "very cautious."

As for another Keidanren official's complaint that the returnees were being charged by government officials as "trying to make money like a thief at a fire," Watanabe said the Japanese word actually used, "kajiba-dorobo," should not be taken literally.

He said it merely means "always quick to take up an opportunity for a bad purpose."

Top Foreign Ministry officials expressed repeated worries about the negative reflection on Japan of business people returning to China motivated by profit as opposed to humanitarian considerations.

Businesses React to Criticism

OW2406132689 Tokyo ASAHI EVENING NEWS
in English 23 Jun 89 p 3—FOR OFFICIAL USE
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[Text] Some of Japan's major trading companies resuming business in Beijing are reacting sharply to criticism that they are trying to "fish in troubled waters."

Scores of businessmen stationed in the Chinese capital were ordered home following the crackdown in Tiananmen Square, but last week they began returning to their posts in droves.

The U-turn was rapped by the FINANCIAL TIMES, a British daily and the Washington Post. It was also criticized by Foreign Minister Hiroshi Mitsuzuka, who said Japanese businessmen seemed to be "trying to act like a thief at a fire."

Traders are offended at such criticism. They feel that it is only adding grist to the mill of "Japan bashers." They are also unhappy about the way the Japanese government has been trying to deal with the turmoil in China.

"It's very regrettable if Japanese companies are seen as putting profit before everything else," said Kenji Asakuma, manager of the China Trade Division at Nissho-Iwai.

He said the main purpose of their going back to Beijing is to make sure that routine trade activities, which have been resumed, are carried on smoothly.

"The Japanese government hasn't clarified its attitude on the present situation in China, yet it's preaching morals," said an executive of another company. "They should tell us what to do only after they have made their position clear."

An official at the Japan External Trade Organization (JETRO) said not only Japanese but also American and European firms have a common desire to maintain good business ties with China.

"As business goes, they have a common stance toward China," said Satoshi Imai, head of the JETRO office in Beijing. "It's only because there is a large number of Japanese businessmen stationed in Beijing that the U-turn is getting a bit too much attention."

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FBIS-EAS-89-140-S
24 July 1989

49

Government's Views on New Leadership Reported
OW2806060189 Tokyo TOKYO SHIMBUN
in Japanese 25 Jun 89 Morning Edition p 2—FOR
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[Text] On 24 June the CPC decided on its new leadership lineup. Concerning the appointment of CPC Shanghai Municipal Committee Secretary Jiang Zemin as general secretary of the CPC Central Committee, the Japanese government (according to a Foreign Ministry source) expressed the view that "it represents a personnel change aimed at restoring China's good image abroad which has been hurt by the armed suppression," pointing out that Mr Jiang was not directly involved in the armed suppression of the student demonstrations on Tiananmen Square in Beijing.

In addition, the Japanese government notes that the communique announced at the end of the recent plenary session of the party Central Committee contained nowhere a denunciation of the United States. Evaluating this highly, it hopes that the communique will mark a start of moves toward the renormalization of relations between China and the United States.

The focal point at present in Japanese-Chinese relations is whether the government's official development assistance (ODA) to China will be resumed or not. In this regard, the government notes that, although the party has for the time being settled the question of personnel change, there has been no reshuffle as yet in the government pending the holding of a National People's Congress (NPC) Standing Committee session. It also notes that martial law has not yet been lifted in Beijing. With these factors in mind, the government will watch further developments and wait prudently for an opportunity to resume ODA to China.

Concerning the new party general secretary installed in the wake of former party General Secretary Zhao Ziyang's ouster, the government believes that Mr Jiang's appointment amid rumors that Premier Li Peng or Politburo member Qiao Shi would be promoted to the post "indicates how difficult it was to pick a successor" to Mr Zhao. In addition, it is still unknown how strong Mr Jiang will be as party general secretary. In this context, the government believes that party Central Military Commission Chairman Deng Xiaoping's influence will further increase.

As for Mr Zhao, he has been excluded from party Central Committee membership. Many people believe that although he was saved from having his party membership taken away, any hope for his restoration "has completely been nipped in the bud" (a government source).

The communique announced after the party Central Committee plenary session calls for the continuation of reform and open-door policies. However, these policies have been deadlocked since last year due to inflation and bureaucratic corruption. In addition, the promoter of

these policies, Mr Zhao, has now completely fallen from power. These policies are therefore expected to face further difficulties in their implementation.

Among matters of concern for the government with regard to the Chinese situation is whether the NPC Standing Committee will deal with a government reshuffle and when the martial law in Beijing will be lifted. The government believes that when martial law is lifted, it will indicate the stability of the new Jiang system.

Spokesman Comments

OW2806143289 Tokyo MAINICHI DAILY NEWS
in English 27 Jun 89 p 1—FOR OFFICIAL USE
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[Text] The selection of Jiang Zemin over the weekend as new leader of the Chinese Communist Party indicates that China's two-month political turmoil is heading toward a settlement, Chief Cabinet Secretary Masajuro Shiokawa said Monday.

The government spokesman told a regular press conference that Japan hopes the new Chinese leadership will cope with domestic and international problems by listening to international opinion.

Jiang replaced Zhao Ziyang as Communist Party general secretary on Saturday.

Shiokawa issued a statement last weekend urging China to exercise restraint in its crackdown on the pro-democracy movement, which led to the executions of an unknown number of protestors.

Shiokawa had hoped at that time that "the Chinese government will act in such a way as not to come under international criticism."

Meanwhile, Taiwanese President Li Teng-hui on Monday urged Japan to change its business-oriented policy toward China, saying the leadership in Beijing is disliked by the Chinese people after the bloody crack-down on pro-democracy demonstrators at Tiananmen Square in Beijing on June 3-4.

This was the first comment Li has made on developments in China since the crackdown. He spoke at a Taiwan-Japan forum in Taipei with scholars, artists and leading businessmen.

He said, "the Communist regime in China is disliked by all the Chinese people after the massacre and the power struggle within the national leadership."

But he refrained from further criticizing the Chinese leadership.

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FBIS-EAS-89-140-S
24 July 1989

50

Difficulties in Reforms Expected

OW2806032589 Tokyo THE DAILY YOMIURI
in English 26 Jun 89 p 1—FOR OFFICIAL USE
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[Text] A government source Saturday predicted that China's economic reforms will face difficulty now that former General Secretary Zhao Ziyang, a key figure in China's open-door economic policies, has been ousted. The source added that the selection of new leaders could serve to settle the confusion in the country.

The Foreign Ministry closely watched the meeting of the Chinese Communist Party's Central Committee Saturday for developments of Zhao, the appointment of a new leader to the party's top post and the election of new members to the Central Committee.

The source said that the ministry saw the dismissal of Zhao as a hard-line stance by China against the democratization movement. Because a report issued by the party after Saturday's meeting referred to the crack down as "a righteous struggle," the ministry also predicts the intensification of ideological controls.

In regard to the selection of Jiang over Prime Minister Li Peng and party security man Qiao Shi, both seen as likely successors to Zhao, a ministry official said that Jiang was apparently chosen because he had no direct connection to the June 4 military crackdown, and his appointment was more acceptable both inside China and abroad.

The official also said that, because Jiang is a technocrat, senior leader Deng Xiaoping will try to strengthen his political power and sphere of influence in the Chinese government.

Changes in Chinese leadership will not change Japan's basic stance of maintaining and promoting bilateral relations, the official said.

But a segment of the government did predict shaky relations for at least some time because economic cooperation has been virtually frozen and because of "humanitarian considerations."

The source said the government strongly desires to see stability achieved in China.

MAINICHI Views Leadership Reshuffle

OW3006231189 MAINICHI DAILY NEWS
in English 29 Jun 89 p 2—FOR OFFICIAL USE
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[Editorial: "Changes in Chinese Leadership"]

[Text] After crushing the democratization movement with a bloody massacre, the Chinese Communist Party has held a Central Committee meeting and selected new leaders. In the midst of the vociferous chorus of disapproval that has been directed against the inhuman method of suppression, in what way will the new leaders chart the course of China?

When the late Mao Zedong led the revolution of 1949 and established a new China, the nation's history underwent a drastic change.

The present supreme leader, Deng Xiaoping, made a big change in China's history by moving away from Mao Zedong's emphasis on politics alone and initiating a policy of priority on economic development. With the tragedy in Tiananmen Square as a turning point, China is showing signs of returning to an age which emphasized politics.

The leaders, centering on Jiang Zemin, the new general secretary of the 47-million-member Chinese Communist Party, will be required to carry out the development of the economy, without losing pace, in the midst of a climate which emphasizes politics, as seen in the rise of Deng Xiaoping's personality cult following the Tiananmen Square incident.

After Tiananmen, the Central Committee has continued to assert that the basic policies of reform and liberalization remain unchanged but, on the other hand, the theory of the intensification of class struggle is being emphasized and tighter ideological controls are being carried out. This means that the new leadership is being required to walk the tightrope of operating the economy as before, but tightening politics and ideology.

Reform and liberalization were advanced under Deng's leadership by Zhao Ziyang, who has now been replaced as general secretary. With his departure, it is difficult to believe that reform and liberalization will advance as in the past. This is because it is believed that the action in Tiananmen Square and the subsequent ouster of Zhao Ziyang were parts of a drama, whose scenario was written by the group that has doubts about economic liberalization and places emphasis on an orthodox planned economy.

Deng Xiaoping, who has boldly adopted the capitalistic method of placing emphasis on productive capability, has lost able men who were able to pursue his policy. Deng's theory that "whether a white cat or a black cat, the one able to catch mice is a good cat" seems to have been negated.

China is today shouldering foreign debts amounting to 40 billion dollars. It will be necessary to begin full-scale repayment next year. These loans were borrowed from the countries of the West during the expansionary stage of the Chinese economy. Unless economic growth is continued in the future, repayment of the loans will become difficult.

This is the reason for the balancing act, in which politics and ideology will be tightened while the economy is relaxed and allowed to grow. Moreover, the eyes of international public opinion are looking severely at China. If the present policy fails, a revival of the "counterrevolutionary rioting" might take place. The task ahead of China's new leaders is heavy.

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FBIS-EAS-89-140-S
24 July 1989

51

Upon looking at the lineup of the new leaders, the question that arises is: "Was the tragedy of Tiananmen Square necessary?" What constituted counterrevolutionary rioting?

The suspicion cannot be erased that someone, for political purposes, branded a peaceful students' demonstration as "counterrevolutionary rioting" in a forcible and unreasonable manner.

Asian Affairs Chief Views Chinese Relations
OW0207141989 Tokyo SANKEI SHIMBUN
in Japanese 29 Jun 89 Morning Edition p 3—FOR
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[Text] On 28 June, a SANKEI SHIMBUN reporter interviewed Sakutarō Tanino, new chief of the Foreign Minister's Asian Affairs Bureau, on the Chinese situation and how the Japanese Government will deal with the new Chinese leadership. The following is a summary of the interview:

Question: How do you see the current Chinese situation?

Tanino: The so-called hardliners have controlled the unusual situation. The influence of Central Military Commission Chairman Deng Xiaoping and other senior leaders will be apparent in state affairs more than before. However, there are only a small number of people in Japan who think that China has gained lasting stability. Political education and class struggles may emerge. I hope China will become a nation which is easy to understand and to which we can make friendly advances. In this respect, Mr Deng is the biggest victim of the Cultural Revolution and I believe he does not want to turn the nation back to the era of the Cultural Revolution. Moreover, the current leaders realize that for the Chinese economy to take off is unthinkable without help from the international community.

Question: How do you assess the new regime under General Secretary Jiang Zemin?

Tanino: His appointment was unexpected. He has been appointed to the post because he managed to tide over the prodemocracy movement spreading to Shanghai by taking a hard attitude; also he was not directly involved in the Tiananmen square incident. He is a technocrat who is proficient in English and Russian. Also, he is an open-minded person. His relations with Japan are by no means very deep. His political skills at the central government are yet to be seen. Li Ruihuan, new member of the Politburo Standing Committee, is popular among the people. It can be said that his appointment was a result of Chinese concerns about the international view of China.

Question: How do you think the Chinese diplomatic attitude will change?

Tanino: What we are concerned most about is China-U.S. relations. We are particularly concerned with the

treatment of Professor Fang Lizhi, (an anti-regime physicist,) and his wife. We hope these issues will somehow be solved without failing to see the forest for the trees. We are worried that negative repercussions may affect Sino-Japanese relations should Sino-U.S. relations become worse than they are now. We are also concerned about Hong Kong. Indeed, there is an accord between China and Britain to return Hong Kong to China in 1997 but we are worried that the worsening situation may jeopardize the accord.

Question: Regarding strategies toward China, there is a difference between the United States and Japan. The United States clarified its intention to take sanctions against China, whereas Japan takes a prudent attitude.

Tanino: I do not think that other nations' understanding [of the current turmoil—FBIS] and their measures toward China are significantly different from those of Japan. Each nation has different historical background and different ways of expressing their opinions to the world. Thus, one cannot comment on the positions of the United States and Japan—which is geographically closer to China—on the same level.

Question: Prime Minister Uno once said that "the government will give good advice to China as a good neighbor." How do you think the government will deal with China in the future?

Tanino: The governmental policies boil down to three points. The first point is that the military appealed to arms and killed many people. It is a very regrettable incident and it cannot be allowed from a humanitarian viewpoint. The second point is that strengthening the crackdown on students and punishment by example are incompatible with the sense of value in Japan which advocates freedom and democracy. The third point is that we wish the Chinese Government would listen to international opinion. We shall continue to tell China our opinions.

However, please understand that the Chinese side has their own logic regarding the current incident. It would be dangerous to make a judgement by applying Western logic. Asian nations, including China, are facing various kinds of difficulties of their own. It is not a good idea to drive China into international isolation. We think it is important to criticize China as if we were giving advice, rather than deserting her coldly. We shall deal with China without jeopardizing the fiduciary relations that the two countries have fostered.

Question: Do you think the Chinese issue will be discussed at the summit meeting of advanced countries (Arch Summit)?

Tanino: Judging from the previous cases, major political issues will be discussed at the summit meeting. It would be rather unusual if the Chinese issue were not to become a topic of discussions at the meeting. Human rights issues will also be discussed. I am sure that one of the leaders will start to talk about it. Japan should

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FBIS-EAS-89-140-S
24 July 1989

52

explain its own opinions on the basis of the aforementioned line of thinking and policy.

Question: The summit talks of the European Community have issued a political declaration banning ministerial exchanges with China. Can you comment on this?

Tanino: Obviously, even without having the government's confirmation, it is inappropriate to have friendship exchanges with China under the circumstances. However, I do not completely support the idea of banning governmental bureau chief level contacts with China. We have to tell the Chinese side unpleasant things and, at the same time, their opinions must be heard. The United States stopped making high-level contact with China but I am not sure if that was a correct decision. We should treat working-level exchanges apart from friendship exchanges. I do not think it is a good idea to close all doors completely.

Question: What will happen to the freeze of economic cooperation with China?

Tanino: Although most economic cooperation at the government level has been virtually suspended, we will, while watching the response of the Chinese side, resume if the situation in China becomes normal. As for new plans for economic cooperation, we will carefully study them by taking international opinions into consideration.

Damage to Sino-Japanese Economic Ties Noted
OW2906004889 Tokyo MAINICHI DAILY NEWS
in English 27 Jun 89 p 5—FOR OFFICIAL USE ONLY

["Focus" column: "China's Turmoil Has Dealt a Blow To Ties With Japan"]

[Text] The Chinese Government's bloody crackdown on the student protest in Tiananmen Square not only dashed the hopes of prodemocracy people for political reforms, it also delivered a severe blow to the economic ties between China and Japan, which had been expanding steadily over the past 10 years.

The bloodshed and consequent political chaos in China sent a shock wave among Japanese business leaders, and forced them to reconsider their business strategies concerning the communist country.

But as the rubble settled during the two weeks after the military clampdown, and the initial panicky reactions subsided, they started sizing up the real damage the turmoil could cause, and seeking ways to limit it as much as possible.

"China is a country where extreme things sometimes happen. We should not allow the current turmoil to get in the way of our expanding economic relations. We should view the situation in China from a long-range perspective," says Takashi Tanaka, president of Yokogawa Electric.

"We will go ahead with our plan to set up a joint venture to manufacture cathode ray tubes and videocassette recorders," says Bin Kitamura, senior managing director of Hitachi, Ltd.

Many business leaders contend that any rush decisions are inadvisable concerning China.

They agreed, as Kitamura insists, that China's decade-old economic reforms have come to a point of no return. There may be some slow-down, but there can be no complete turn of the tide.

The potential market in China, with a population of 1.1 billion, is too vast to pass up.

And the country is assuming an increasing importance as the third-largest production center in Asia for Japanese firms, which have already advanced into such countries as the newly industrializing economies (NIEs), Thailand, and Malaysia.

Whether you lend a helping hand under such circumstances will determine the future success of your business with the country, says a senior official of a major manufacturing firm.

Inevitable Deterioration

While few experts expect the bloodshed in China to lead to an outright severance of Japan's economic ties with the country, most believe at least some deterioration of the relations will be inevitable.

Matsushita Electric Industrial has poured 20 billion yen into a joint cathode-ray tube manufacturing plant in the suburbs of Beijing.

Although the plant is expected to start operation in July as scheduled, a senior official of the company says: "We will have to be more cautious about any additional investments."

It has become quite uncertain whether the firm will press ahead with the plan to establish another joint venture to produce videocassette recorders.

NEC had been negotiating two joint projects: a plant in Beijing to manufacture semiconductors, and a plant in Tianjin to make digital switchers.

The upheaval has certainly muddled the outlook for these projects. "We reached basic agreements on both projects last fall. But the recent development in China has changed the circumstances completely. We may be forced to cancel the projects, depending on the future course of events," says NEC President Tadahiro Sekimoto.

Factors are multiplying rapidly that could work against new investments in China.

What is especially worrisome for foreign investors is the declining international credence of China.

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FBIS-EAS-89-140-S

24 July 1989

53

The Ministry of International Trade and Industry (MITI) has raised the premiums on trade insurance for dealing with China.

Putting an additional damper on the investment climate in China, Moody's Investors Service Inc. has started reviewing the creditworthiness of China.

Moody's is examining its rating of China to see if it adequately reflects the risks posed by the political upheaval, according to company officials.

Among other possible setbacks for China's economy will be economic sanctions some Western countries are expected to impose, and tightening by the Coordinating Committee for Export Control (COCOM) of controls on exports to China.

Investments To Shrink

In the face of mounting unfavorable conditions, new investments in China by Japanese companies are bound to shrink substantially.

An expert on the Chinese economy says; "investments by small and medium-sized firms are certain to decline sharply, and those by large companies will also shrink substantially."

Especially vulnerable to the worsening climate is direct investments, such as the establishment of plants, because it is far more difficult to withdraw investment money when things go awry than in a case of trade.

Although it is generally expected that China will retain the current policy toward economic reforms and keep the door open to the outside world, nobody is quite sure which way the world's most populous country is headed.

China will probably lose half of its attraction for foreign investors as a result of the chaos, an expert claims. "It is going to take 10 years for the bilateral ties between China and Japan to get back on the former expansionary path," he argues.

"What is the effect of all I have done?" lamented a MITI official as he was busy receiving phone calls from China on the day after the massacre in Beijing.

He has been at the vanguard of the government's effort to boost private Japanese investments in China.

The massacre in Beijing was all the more shocking for the official because it came amid growing interest in investing in China as a result of recent efforts led by the MITI to expand Japan's economic stake in the country. "Everybody who has been involved in economic cooperation with China must feel strong regret and frustration," he says.

But the damage the crackdown has delivered to Japan-China trade has so far been limited.

Japanese businessmen who came back from China in the wake of the turmoil are rushing back to the country, incurring some international criticism.

At a Seiko-Epson plant in Guangdong Province, Manager Yoshiharu Ariga said: "There have been no adverse effects from the political confusion either on the operation, or on exports to and imports from Japan."

Japan had a 400 million dollar trade deficit with China last year, due mainly to a sharp 2.5 billion dollar increase in imports from the country.

The upsurge in imports from China was caused by the appreciation of the yen and growing investments in that country by Japanese firms.

China, on the other hand, was suffering from inflation of 18.5 percent, which was beginning to put a crimp on exports.

China was midway in the process of adjusting the economic policy to achieve more stable growth when the political upheaval hit the country.

What the bloody crackdown crippled was not only the movements toward democracy but the country's decade-old attempt to revamp its retarded economy.

Most economists were betting that China would soon become an important component of the rapidly developing economic bloc emerging in the Asian region.

But the military clampdown on prodemocracy demonstrators has no doubt put a stigma on China, which will hamper its international activities, whether political or economic.

"The incident has created a large obstacle for China's international relations. In particular, the program to utilize the vitality of Hong Kong to give a boost to the Chinese economy has been shattered," contends Toshio Watanabe, professor of economy at the Tokyo Institute of Technology.

It is not clear how long it will take the Chinese to rebuild the shattered confidence in their country, but China's dream of becoming a major economic power in the early 21st century suddenly seems a long way off.

Economic Ties Said To Limit Action Against PRC
OW1107034089 Tokyo THE JAPAN TIMES
in English 10 Jul 89 p 18—FOR OFFICIAL USE ONLY

[From the "Macrotrends, Microtrends" column by Toru Yano, professor of political science at Kyoto University and vice president of the National Institute for Research Advancement]

[Text] Japan has not taken, and indeed cannot take, strong action against China for the June 4 tragedy at Tiananmen Square. Why? There are a number of reasons.

FBIS-EAS-89-140-S

24 July 1989

54

First, Japan is too deeply involved in China's economy and therefore cannot take economic sanctions against that country. China's economic modernization and development depends greatly on Japan's close economic cooperation. Japan's involvement is incomparably greater than that of the United States or European countries. China's cumulative debts to Japan are said to total close to \$40 billion. Given this close link, Japan simply cannot impose economic sanctions against China.

Another reason is that a stable relationship between the two countries is indispensable to the security of Asia as a whole. China holds a decisive key to the settlement of the Cambodian question and regarding the Korean Peninsula. Its political stability and steady economic development are necessary to maintain its vital voice in Asian relations.

Japan's own long record of relations with China has often been less than good. Various issues strained these relations in recent years, like China's complaints about certain historical descriptions in Japanese high school textbooks and a Japanese court decision favoring Taiwan in a case concerning a Chinese student dormitory here.

Chinese Prime Minister Li Peng visited Tokyo not long before the Tiananmen Square incident.

Japan's relations with China as quite different from those the U.S. and the countries of Western Europe have with Beijing. The decisions of the Japanese government concerning China are based on this perception. It is not an exaggeration to say that no country matches Japan in the expectations it holds for China's role in world affairs, particularly Asia's security.

Speaking from another dimension, harmonious relations with Asian countries are vital to Japan, Asian itself, in this age of regional integration as evidenced in the United States-Canada free market agreement and the European Community's march toward its full integration in 1992. It is perhaps natural that Japanese diplomacy show a Neo-Asian view. "Asia" has diplomatic value, as it were, to Japan. Never before did Asia's importance to Japan have such great practical meaning as it does today.

Asia cannot be ignored. Geoproximity assumes increasing importance as the interdependence of nations grows on a global scale. The Meiji-like idea of Japan forging close relations with distant Europe at the expense of its fellow Asian neighbors is no longer acceptable or possible.

Asia is making remarkable progress. This can be said in particular of the newly industrializing economies (NIEs). It is a matter of increasing practical importance that Japan put ever greater emphasis on its relations with the rest of Asia. Japan itself has a big role to play in the development of what may be called the East Asia sphere of civilization.

It can perhaps be said that the Tiananmen Square incident marked a decisive moment for Japan to step into the neo-Asia period. Japan made a diplomatic decision that transcended humanitarian considerations in the manner of "hate the crime but not the person who committed it."

Japan may be criticized and asked to make its stand clear on the China question at the annual summit meeting of seven leading industrial nations opening in Paris on July 14. Japan can only explain, as logically and consistently as possible, the importance of its relations with China, thereby trying to impress the other summiteers about Japan's very special perception of Asia and feeling of responsibility.

There is, of course, a big price to pay for choosing the neo-Asia road. Asian irrationality persists here and there in Asia. A very special ability is demanded of Japan to tolerate such irrationality.

Possible Lifting of Travel Restrictions

OW1407083489 Tokyo YOMIURI SHIMBUN
in Japanese 14 Jul 89 Morning Edition p 1—FOR
OFFICIAL USE ONLY

[Text] A senior Foreign Ministry official yesterday disclosed that the government is considering re-examining voluntary restrictions on travel to China, a measure taken in the wake of the Tiananmen incident. This includes the lifting of the measure, possibly after the Arche Summit (of advanced nations), he said. Initially, the travel restrictions will be lifted for areas other than Beijing, and restrictions on travel to Beijing will be lifted later than for other areas.

Government Reconsiders Emperor's PRC Visit

OW1307111589 Tokyo SANKEI SHIMBUN
in Japanese 10 Jul 89 Evening Edition p 1—FOR
OFFICIAL USE ONLY

[Text] The government has decided to reconsider a visit to China by the emperor and empress planned for 1991. The decision was made in view of the fact that, in addition to the political situation in China still being precarious, Western nations have reacted strongly to the crackdown on the democracy movement in China and are moving toward stern action including sanctions against China.

Within the decision, there is also a design to renew Japan's displeasure with the actions of the Chinese Government. It is believed that if the visit is canceled completely, there will be strong reaction from the Chinese side.

The invitation to the imperial couple to visit China was extended personally by Chinese Premier Li Peng in April when he visited Japan as an official guest of the government. The emperor at that time showed eagerness to accept, saying: "I will consult with the government on the matter, but I would like to go." The government then

FBIS-EAS-89-140-S

24 July 1989

55

began to review a plan with the goal of realizing the visit in the spring of 1991—after the mourning for Emperor Showa is over and the coronation and Daijosai [great thanksgiving festival after the enthronement—FBIS] rites have been completed.

The domestic situation in China has changed dramatically since April. The uproar of the pro-democracy movement resulted in the declaration of martial law in Beijing, and 4 June saw the armed suppression by the People's Liberation Army in Tiananmen Square. This caused the Western nations to change its thinking on China and to react against it. The United States and the European nations have responded by taking stern action including sanctions.

The Japanese Government initially took a restrained stand; it did not cooperate in the sanctions. However, following China's executions of pro-democracy movement participants, the government has moved toward taking action; for instance, banning in principle the exchange of senior government officials. It has also been forecast that the summit of industrially advanced nations (Arche summit), to be held from 14 July, will adopt a protocol which will include criticism of China in clauses dealing with human rights.

After carefully reviewing the question of the imperial couple's visit to China in consideration of the moves of other nations, (a Foreign Ministry source said) the government has arrived at the judgment that "it is not appropriate to even make preparations for the visit."

Within the government there is concern that an unexpected situation could arise while the imperial couple is touring China. Some note that even though security is being restored in China following the inauguration of a new leadership centering around General Secretary Jiang Zemin, future developments still remain unclear.

The government is expected to review the timing for the visit, watching carefully domestic and diplomatic developments in China, the direction of the pro-democracy movement, and the policies other nations will take in dealing with China.

JCP Answers TIMES Questionnaire on Sanctions
OW2906122189 Tokyo JPS in English 0940 GMT
28 Jun 89—FOR OFFICIAL USE ONLY

[Text] Tokyo Jun 28 JPS—AKAHATA on June 28 published full text of JCP [Japanese Communist Party] answers to a questionnaire by JAPAN TIMES On the issue of sanctions against China. The answer, dated June 24, was given by Mitsuhiro Kaneko, head of the Secretariat of the Japanese Communist Party.

The questions and answers follow:

Q1 [Question 1]: Do you think the Japanese Government should take any steps for sanctions against China?

A : Yes

Q2: To what extent do you think the actions should go?

A : The Japanese Government should denounce the Chinese authorities for their brutal armed crackdown, protest, and urge them to stop their outrageous acts immediately. At least, economic aid, the source of which is the taxes paid by the Japanese people, should be "frozen" at once.

(Q3 is for the answerer who replies "no" to Q1)

Q4: do you forecast that Japan may be placed under stronger criticism from part of Western countries if Japan fails to take a step for sanctions ?

A : Of course, yes. The attitude of the Japanese Government has already caused strong international criticisms.

Q5: do you have something to say to the Chinese leadership as a "friend" ?

A : Simultaneously with their having launched the "Cultural Revolution" in China, Mao Zedong and the CPC leadership led by him embarked on their attempt to impose an armed revolution course on Japan, and instigated the blind followers of China and fed pro-Chinese elements with the aim to subvert the Japanese Communist Party. Since that time, the Chinese side has made no self-criticism on this. Therefore, relations between the two parties have been severed for these 22 years, and we are not "friends".

When the demands of the Chinese students and citizens by non-armed means gained momentum before the use of arms (by the Chinese authorities), the Japanese Communist Party on May 29 warned through AKAHATA, central organ of the party, that the Chinese authorities should not make an armed crackdown, and if they dare to do this, it would cause a serious international question. On the forced bloody repression of June 4, the JCP Central Committee strongly denounced this by a statement issued the same day. The Chinese Armed Forces authorities claim that they "did not charge" a gun, and they "did not kill a single person". This shows that they cannot justify their brutal acts. From the standpoint of independence, the JCP will continue strong denunciation of this outrage, which is also a grave international question, pointing out that such an outrage is very brutal, a far deviation from socialism, from respect for human rights, life and democracy. At the same time, the JCP has expressed solidarity with the Chinese students and citizens in their endeavor for democratization.

Q6: Do you think the Japanese Government should approve renewal of visas for Chinese students and others in Japan?

A : Of course, yes. On June 12, 13 and 16 in the budget committees of the House of Representatives and the House of Councilors, and the judicial committee of the House of Councilors, JCP Dietmembers requested the government to extend visas to Chinese students in Japan.

FBIS-EAS-89-140-S
24 July 1989

56

The JAPAN TIMES had asked political parties other than the Japanese Communist Party to answer the questions by 3:00 p.m. of June 23. (Their answers were introduced on the June 24 issue of the paper.) But it was late evening, 5 hours after the deadline, that the English paper in Japan telephoned headquarters of the JCP, asking if the JCP would answer to questions on the Chinese problem though there was only an hour before the deadline.

The JCP had the will to answer, but it was physically impossible to do so. After conferring with the editorial department of the paper, it was confirmed that THE JAPAN TIMES would cover the JCP's answer if the party would answer later. Then the JCP gave the answer on June 24.

But the June 25 issue of the paper, reporting the answer from Kaneko, said, "His response was delayed because of procedures within the JCP." Seeing the process of the paper's request to the JCP, this is a mistake of fact. Based on the protest by the JCP, the June 26 issue of THE JAPAN TIMES carried a correction.

JCP Chairman Reaffirms CPC Break
OW0107110289 Tokyo JPS in English 0857 GMT
30 Jun 89—FOR OFFICIAL USE ONLY

[Tokyo Jun 30 JPS—AKAHATA today carries an interview with Chairman Kenji Miyamoto of the Central Committee of the Japanese Communist Party [JCP] on the Chinese problem and the JCP position. Miyamoto stressed farsightedness of the JCP represented by over 20 years' severance of relations with the Communist Party of China and clarified fundamental difference between the JCP and CPC. He urged the whole party to endeavor for totally defeating groundless attacks against the JCP by the Liberal Democratic Party [LDP] and anti-communist opposition parties in the present Tokyo Metropolitan Assembly election campaign.

At the beginning Miyamoto said, "It has become very important for us to make clear the fundamental difference between the JCP and CPC, why the JCP has severed relations with the CPC for over 20 years, and why the Tiananmen incident took place." The interview which was conducted by Director Shigemitsu Kawamura of AKAHATA is composed with following parts.

Direct motive of severance of relations between the two parties—JCP refuses Chinese imposition of armed struggle and hegemonism:

China's unprincipled pragmatism approving Japan-U.S. military alliance and eulogizing LDP government:

The clue to Tiananmen Square incident—armed crackdown of peaceful movement:

The lie that they "did not kill anyone" is unwarrantable in the world:

Terrible pre-modern idea of having not respect for human life:

The CPC is doing nothing to deserve the name of Communist Party:

Inconsistent LDP, SPJ [Socialist Party of Japan], Komei and DSP [Democratic Socialist Party] stick at nothing to gain their anti-communist end:

JCP aims at a progressive change in politics peacefully within the framework of capitalism in which the people will become the master:

With science and reason, we develop society by making the best of wisdom of human kind:

Let's aggressively act among the people, maintaining the party's basic election policy and convinced with the party line:

(The Clue to Tiananmen Square Incident—Armed Crackdown of Peaceful Movement)

Kawamura (editor in chief of AKAHATA): The Tiananmen incident should be taken in the context (of pragmatism followed by the Communist Party of China) which you (Kenji Miyamoto, chairman of the Central Committee of the Japanese Communist Party) have just mentioned. Isn't it?

Miyamoto: Well, the report of the 13th Congress of the Communist Party of China established that whether beneficial to developing productive force or not is the only standard to measure everything. On perspectives of that socialist country, besides talking about socialization of productive means, they sometimes mention the safeguarding of the right of nations to self-determination and socialist democracy, but no stress is given to these two subjects in their practical political guidance. On the ground that Chinese economy is lagging behind for a century, they concentrate efforts to "modernize" military and economy, that is, to create a strong China both in military and economic aspects.

It is natural that in this situation socialist development meets with many difficulties, in economy and other spheres. Some utilize economic policies during this period and become "mushrooms", such as "household with an income of ten-thousand-yuan". Illegal channeling of materials by sons of upper cadres and illegal acts by bureaucrats have become peculiar. The hard living conditions for students as a whole and indignation at the evil and corruption were the great motive which led to that massive demonstration of the greatest scale.

The PEOPLE'S DAILY was very soon in carrying an editorial defining this to be a "turmoil". The students went into persistent negotiations requesting withdrawal of the definition of "turmoil". People, called one million, gathered. But the form of struggle of that demonstration was non-armed struggle. Hunger strike is its typical expression.

It was not a demonstration wholly organized by a leadership. I think it would be natural for the demonstration to have included in part various elements among the one million participants, and in part there might be various odds and ends slogans. But this is not the key point.

The students won participation of such a great number of citizens and workers, upheld democratic demands in

FBIS-EAS-89-140-S
24 July 1989

57

the whole, carried on peaceful meetings and demonstrations, claiming that these are no "turmoil" at all. The crucial point is that the Chinese leadership made a fundamental error in dealing with this. In the decrees of the Chinese Government to the people, especially those after that of June 4 in which the situation was declared as a "riot" with a view to providing grounds for the use of armed forces, they said that the demonstrations were intentionally organized by a small certain part of persons with a view to overthrowing socialist China. But in general the demonstrations were peaceful ones carrying democratic objectives. This is the fact which the world people saw through TV.

There might have been many political ways to settle it. What we take seriously as an international matter is that the Chinese leadership suppressed this by arms, actually by tanks and guns. This is the most crucial point of the incident. They rewarded such a nonarmed peaceful movement by the sweeps of fire, a very cruel surprise attack. (The lie that they "did not kill anyone" is unwarrantable in the world)

On that key point, a high officer of a martial law troops for Beijing in a press conference at the People's Great Hall on June 16 said that the dispatched troops "neither killed a single person", "nor fired a single gun". This is a lie fabricated to fool the eye of the world, but telling in itself the lawlessness of the actions. They had to tell such a lie to defend that act of theirs.

At the root of their actions lies a thinking of "political power comes from the gun" as a universal one, an idea which has nothing to do with scientific socialism. Organizational system of the present Chinese party is that Deng Xiaoping, who is not a member of the Central Committee, takes the post of chairman of the Central Military Commission, and rule the party and state. In this military despotic rule, the general secretary of the party, person with highest responsibility for the party, and the state president are given the lower post of vice-chairman. This thoroughly tramples on democratic centralism, organizational principle for a party of scientific socialism.

Deng's later interviews with military leaders and so-called lectures are centered mainly on consolation for officers and grief for the dead in the military, saying that the military exercised a perfect self-restraint but was obliged to take resolute measures. No official report has been made public so far as to exactly how many people died in that incident. The military authorities declared that "not a single person was killed" and that "not a single gun was fired", but they lost their words when they were demanded by reporters to explain the bullet holes on the people's heroes monument.

The announcement to all members of the CPC and brethren, which was issued on June 5, said that urgent messages of warning were given many times since the afternoon of June 3, against any hindrance to martial law troops from fulfilling their missions, so that any misfire

be avoided. This is certainly based on a foregone conclusion that there should be gunfires.

What the world public makes issue at is that, putting aside miscellaneous factors and slogans, there remains a hard fact that the military force of the government machine-gunned the unarmed people in a massacre. The world is shocked and enraged at this. The Japanese Communist Party cannot overlook the matter, either. So, we made clear our position of resolutely denouncing it as an international question. What is called into question at international level is not whether there were, or were not, some anti-socialist elements on the of the incident. The key question lies in that the Chinese leadership in responding to the recent situation failed to act in strict compliance with respect of human life commensurate with scientific socialism and utmost respect for socialist democracy, but dared, on the contrary, to use military force to suppress the movement.

The 4th Plenum of the 13th Central Committee of the CPC hailed the so-called Deng Xiaoping speech as a programmatic document, and cited the alleged serious errors of Zhao Ziyang and Hu Qili in supporting the "turmoil". That they did not attend this Central Committee plenum and were tried in absence claims our attention to the fact that the due democratic procedure, that the person whose problem concerning the party rule is on the agenda is asked to attend the plenum and express one's own view on the theme, is abandoned. For all members of the Central Committee to hear the explanation from a leading member of the Central Committee on the reason why he did not agree with the definition of "turmoil", and then discuss the problem, is what a party of scientific socialism should do without fail. This is ignored, and the reason has not been made public. This is a serious defect in their party management. If the subject was put to prior discussion in an enlarged political bureau meeting, and Zhao Ziyang and the others attended as some Japanese press reported, it cannot justify the trial in their absence in the official Central Committee plenum. This cannot but be seen as inseparable with the ruling system of military autocracy, deeply tied with personal cult of Deng Xiaoping.

The universal declaration of human rights, adopted by the United Nations in 1948, stressed respect for universal human rights. The idea of freedom and human rights is the acquisition of human beings after long struggle against feudalism. Therefore, we say that prospecting future socialism, these must be enriched further on the basis of socialism.

Part 2

OW0107122789 Tokyo JPS in English 0857 GMT
1 Jul 89—FOR OFFICIAL USE ONLY

[Text] Tokyo Jul 1 JPS—"Continued from Yesterday"—JPS editorial notation]

FBIS-EAS-89-140-S
24 July 1989

58

(Terrible Pre-Modern Idea of Having Not Respect for Human Life)

Why are human lives made so light of in China? As I pointed out in my speech at the Fifth JCP CC [Central Committee] Plenum, Yang Shangkun, Chinese chairman of state, told that "not be afraid of a toll of lives. It matters little if some 100,000 people are killed in Beijing", and Deng Xiaoping that "even one million of population is a small number in China." When the JCP and the CPC still maintained relations, Mao Zedong told us that "it doesn't matter for us to lose one or two hundred millions of lives in war." Though I believe he told this to emphasize the courage of Chinese people, I still think that this remark reflects their lack of experience with the parliamentary struggle, the lack of respect for people's rights. Certainly, under the historical conditions in China it was necessary to resort to arms in the liberation struggle. But seen from the human achievements in the world, they have a serious lack of respect for human rights, I think. They have gone on "hunting people" since the event (on June 4), under a propaganda that the armed crackdown was right.

This relates to a question of hegemonism as well, to which I referred in the beginning of this speech. That's the question of Cambodia. The Pol Pot clique in Cambodia deferred blindly to Mao's thesis, "The political power comes from the gun." They invaded the territory of Vietnam and then were rebuffed? Domestically they took a policy of genocide killing several millions of their countrymen. They were eventually overthrown and ousted by the united strength of rising Cambodian people and Vietnamese people. China still gives the Pol Pot clique a military aid. We criticized the Chinese party for maintaining the relations with "Japan Labor Party" it had formed as its agent for interference in the internal affairs of our party. The "Japan Labor Party" was a trifle in strength, and had nothing to do with socialism. In a period of time after 1985, the JCP and the CPC had a talk on the restoration of relations, based on the offer from the CPC. In the talk we were astonished when the Chinese side refused to cut its relations with the "Japan Labor Party"? This attitude was the same as it has refused to make self-criticism of its hegemonism in the past. To tide over the difficulties by means of pragmatic thought—this is the current policy of Chinese leadership.

This shows how deep-seated its hegemonism is for which it has refused to cut the relations with its agents in Japan.

In short, these are what the Communist Party of China has been and is now.

(The CPC Is Doing Nothing To Deserve the Name of Communist Party)

Some people of good will may insist that having the same name of "Communist Party", the two parties, the JCP and the CPC, may have common ideas and slogans. Those who are worried over the future of the JCP because of the Chinese situation seem to be speaking from that viewpoint.

I shall first explain our fundamental view that led to the JCP position on the CPC for the past two decades. The question is that the CPC turned from a generally correct line of CPC in an initial Mao Zedong era to a reverse, imposing hegemonism on other countries, calling for overthrow of communist parties of other countries, and later pursuing diplomacy of pragmatism of seeking immediate benefits alone. We are convinced that at the root of these policies lies throughout a persistent thinking that "political power comes from the gun" and that the idea can enjoy universal currency. The CPC attitude is completely contrary to the principles of scientific socialism, and in this very fact a major clue to the explanation why an incident like the recent one should take place.

One more thing should be made clear. The Chinese leadership summarized the recent incident basically as a struggle for the "firm maintenance of four basic principles" against bourgeois liberalization. The "four basic principles" that they have recently played up for the firm maintenance are: "road to socialism", "people's democratic dictatorship", "guidance by the CPC" and "Marxism-Leninism and Mao Zedong Thought".

What they call by the name of "Marxism-Leninism and Mao Zedong Thought", however, is a different thing from scientific socialism. In the first place, we use the name "scientific socialism" to identify a social science analyzing the laws of social development, instead of giving absolute value to this or that sayings of leaders in the past, however prominent they themselves may be, by crowning an individual's name on a thought. In the light of the principles of scientific socialism, the CPC has committed not a few self-evident errors.

At the level of communist movements in the world, the errors expressed themselves in not a few parties at a time upheld the Soviet Union as the absolute and eulogized the Soviet invasion in Afghanistan, or upheld China as the absolute and allowed anti-party divisionist groups, though minor in their numbers, within their parties. The JCP came forth with the severest criticism at the errors. Our criticism gives expression to our action in that we have never sought and will never seek unprincipled restoration of relations. This decision is based on our judgment that the CPC, from our view, is not a true communist party.

Communism is a scientific theory of social progress, and it is basically the collection of the essence of the wisdom of human beings for their development. From short-sighted pragmatic stand, they naturally stress exchange and "mutual trust" with the Japanese Government. But this is no communist standpoint. It is proved by their deeds. They do not hesitate to trample down, or completely neglect the basis of historical materialism that the world is changed for progress by the strength of world people, and progress is brought about by the unity and struggle of the people through their thorough-going quest in contradictions with the ruling circle.

FBIS-EAS-89-140-S
24 July 1989

59

Therefore, their signboard of the "holding fast of the four basic principles" is factually false.

Mao Zedong's historic achievement is unquestionable. But it cannot be said that present China is pursuing social development based on the principles of scientific socialism, even though they carry such a slogan. But now they allege that they unconditionally stand on these principles, and mouth such words as "class struggle", or "class struggle in a specific situation", which they had not used for a long time. Their interpretation may be that: China underwent civil war, and in comparison with that the armed crackdown at this time is a trifle matter, and their attitude is right.

The JCP has had no relations with them since two decades and more years ago. This is because the present state of being of the Communist Party of China does not deserve the name of a communist party. They have far deviated from the road of a communist party and communism. We demonstrate our criticism not only by words but also by "severance" of relations.

In some occasions, some European parties dropped in Japan and called on the JCP after their visit to China, and conveyed the messages that "the Chinese side wants restoration of relations".

But the CPC proposed to the JCP negotiations for restoration of relations on the basis that they take note of the principles that the JCP had openly stated. But they cut negotiations when their lack of reason became clear through negotiations. They lack democratic thinking on the international affairs also.

AKAHATA Editorial on CPC Actions
OW2906120689 Tokyo JPS in English 0924 GMT
29 Jun 89—FOR OFFICIAL USE ONLY

[Text] Tokyo Jun 29 JPS—AKAHATA of June 29 carried an editorial entitled "Why Communist Party of China Alienates Itself From Scientific Socialism" the full text of which follows:

On June 4, immediately after the Chinese party and Government put a cruel armed crackdown on students and other citizens' movement for democracy, the Central Committee of Japanese Communist Party made a resolute protest against it, issuing a statement "JCP Condemns Chinese Party-Government Leadership for Outrageous Actions Against Socialist Democracy." This is a natural course of action for a party that is founded on scientific socialism whose aim is to protect human lives, and bring freedoms and democracy into full blossom.

Absurdly enough, the ruling Liberal Democratic Party and anti-Communist opposition parties have made use of the events in China in their anti-JCP propaganda that "look, that is Communism" or "the JCP belongs to the same category." But the truth is on the opposite. The events in China didn't take place because the Communist Party of China clings to communism; scientific

socialism, but because it has long alienated itself from it, although it still carries the name of "Communist Party."

(1)

The JCP severed its relations with the CPC more than 20 years ago, and has had no connection with its leadership since then. A cause for this severance of relations was that Mao Zedong and Deng Xiaoping made an attempt to force their armed struggle line, "political power comes from a gun?", on the Japanese movement, an attempt which the JCP rejected. Since then the party has criticized the CPC leadership severely.

Though the CPC carries the name of "Communist party," its line is fundamentally different from the JCP's. It is not based on scientific socialism, but on an unprincipled view of world, pragmatism—"utilitarianism" the only aim of which is to pursue an immediate profit. Following this line, the CPC doesn't hesitate to establish unprincipled "relations of mutual reliance" with governments of capitalist countries.

Because the Chinese leadership has looked upon "the "political power comes from the gun" as universal truth and attempted to impose this onto other countries, it assisted the Pol Pot clique carrying out a national genocide killing some three million people of Cambodia, and invaded Vietnam, socialist country.

In its program the Japanese Communist Party makes it clear that the party, together with the people, shall pursue social progress through elections, in peaceful and democratic ways. It is quite natural that the JCP, which seeks an independent, peaceful, and parliamentary way of changing the social system, gathering the majority of the people around it, rejected the China's interference and carried out the struggle resolutely. Then, the Communist Party of China set out on a most violent interference and attack on the JCP, bringing up anti-JCP groups whose aim was to overthrow the JCP leadership, and even employing a direct violence against the JCP representative and an AKAHATA reporter stationed in Beijing, who were severely injured and literally kicked out from the city under the collective terrorism by the red guards.

(2)

The CPC position, with its praise of Japan-U.S. military alliance, advocacy of "mutual trust" with the Liberal Democratic Party, eulogy of the cabinets of Nakasone and Takeshita, which is caused by a pursuit of pragmatism for immediate benefits, has nothing to do with scientific socialism.

For example, the then Chinese Vice Premier Deng Xiaoping during his visit to Japan in 1978 for the exchange of ratifications for Japan-China Friendship Treaty said to the then P.M. [Prime Minister] Takeo Fukuda: "The Japan-U.S. Security Treaty and (Japan's) buildup of self-defense forces are matters of course."

FBIS-EAS-89-140-S

24 July 1989

60

"We hear that some people (in Japan) regard the Japan-U.S. Security Treaty as unreasonable? It is they who are unreasonable". (Evening Edition of "ASAHI SHIMBUN", October 27, 1978)

The CPC approval and praise of Japan-U.S. military alliance was derived from its pursuit of immediate benefits of anti-Sovietism, because the CPC at that time looked upon the Soviet Union as its enemy, and Japan-U.S. military alliance as directing its spearhead on the Soviet Union. Nothing is more unprincipled than this, for a party of a socialist country, whose mission is to oppose imperialism and reactionary forces and to get into solidarity with the peoples of capitalist countries, for world peace and social progress.

In a process of promotion of its task of "four modernizations", the CPC is eager in paying tribute to the LDP reactionary government.

A report of activity presented to the 13th conference of national representatives of the CPC held in October, 1978 said: "Utmost efforts should be made for modernization. The fundamental mission of a socialist society is in the development of productive power". "The development of the power of production should be at the center of all activities. A judgment on whether it is favorable to the development of productive power should be the starting point for us to consider all questions and the fundamental norm to examine all activities."

The CPC entered into "relations of mutual trust" with the reactionary government of Japan, so as to be given economic and technological aid. Socialist democracy, a must for a socialist country, is ignored, as judgment on pragmatic economic benefits, "whether or not it is favorable to the development of productive power", becomes the sole norm in promoting economic construction in China. A CPC leader who visited Japan in November 1983 gave a speech in the Diet, saying that mutual trust between the governments and leaders of both countries should be enhanced. Talks were later held between the then Foreign Minister Wu Xueqian of China and Shintaro Abe of Japan. It was agreed to add a principle of "mutual trust" to the existing three principles for Japan-China relations: peace and friendship? Equality and reciprocity? Stability for long. It should be recalled that they missed no occasions to eulogize the then Prime Ministers Yasuhiro Nakasone and Noboru Takeshita. It is a matter of course that a socialist country, for the sake of peaceful co-existence, to have relations of diplomacy and economic cooperation with a capitalist country with a different social system. But it is a completely different question if a socialist country eulogize and praise imperialist countries and their reactionary governments and to make ties of "mutual trust" with them. It is too clear that such acts have nothing in common with scientific socialism.

The consequence of this "modernization" line of the CPC based on "pragmatism" is a disregard of socialist

democracy which is essential for a socialist country, because mere practical economic and military benefits are pursued on its way to socialist construction. This position is also alien to scientific socialism.

No demands recently put forward by the students and citizens' movement for better living and democracy are accidental. Necessity has given rise to their demands. The demands are put forward by the strata of people who have to suffer from a delay in the CPC's socialist construction and from the over-simplified priority formula, and who now demands that their living conditions be improved. The movement was carried out as a non-violent, peaceful movement. The fundamental problem lies in the fact that the Chinese leadership arbitrarily gave a definition of "turmoil" to this movement so as to pave the way for the armed suppression.

(3)

The Chinese party and government at last fired guns at the students and citizens who were engaged in democratic demands, and did not hesitate to cause a loss of a great number of precious human lives.

Underlying this is the thinking regarding "political power comes from a gun" as universal one. Such thinking is nothing to do with scientific socialism.

Organizational system of the present Chinese party is that Deng Xiaoping, who is not a member of the Central Committee, assumes the post of chairman of the Central Military Commission, and rule the party and state. This is a system of military autocracy under which democratic centralism as organizational principle of a party of scientific socialism is trampled down. The armed crack-down at this time was done by the order of Deng Xiaoping. This clearly tells us that such thinking and system, alien to scientific socialism, is the fundamental cause which caused the outrage at this time.

The reason why the Japanese Communist Party has harbored strict criticism of China over these two decades is because the fundamental stand of the Chinese party is hegemonism, which fundamentally contradicts with democracy and socialism.

(4)

The argument that a second Tienanmen case will take place in a JCP administration, on the ground of the common name "communist party", is an intentional demagoguery, or, if not so, it is the argument by those who do not know actuality of communist movements in the worlds, especially the 20-year history of fierce conflict between the JCP and CPC.

The basic point of the movement of scientific socialism is to implement the course of social progress based on people's power. During some 30 years since the adoption of the party program, the Japanese Communist Party has consistently defended and developed this position and

FBIS-EAS-89-140-S
24 July 1989

61

has been engaged in activities for mass people under the reactionary rule of Japan in an military alliance with the United States.

If you hesitate to support the JCP because of the outrage in Beijing, please consider past 30 years of the JCP.

Will the JCP create such an outrage as in Beijing? Absolutely it will never happen.

On this occasion, to help the advance of the JCP which can take most resolute attitude on the Chinese problem will strengthen politics of Japan toward peace, progress and renovation of the world based on science and reason in view of people's position. This is our conviction.

Southeast Asia

Article on Help for Asian Environment
OW1907091589 Tokyo THE DAILY YOMIURI
in English 15 Jul 89 p 3—FOR OFFICIAL USE ONLY

["Special" to the "Living With Gaia" series: "Japan Must Aid Asian Environment"]

[Text] None of today's grave environmental challenges can be met without a new era of cooperation between the industrial countries and the developing countries. In asia, this means that Japan must play a major role in helping her neighbors by going beyond traditional environmental considerations and including basic economic issues such as the management of international debt and the transfer of resources and technology.

Top environment officials of Asian countries met recently in Tokyo to discuss the issues affecting their countries.

The forum on "Environmental Issues in Asia and Japan," was held at the YOMIURI SHIMBUN head office in Tokyo. Participating in the forum were Professor Qu Geping from the People's Republic of China, Dr. Emil Salim from Indonesia, Amar Stephan Yong from Malaysia, Fulgencio Factoran Jr. from the Philippines, Eugene Yap Giau Cheng of Singapore, and Masahisa Aoki of Japan.

During the 1960's Japanese communities suffered from a number of devastating health problems caused by industrial pollutants in the air and water. Chairman Toshio Ohata, the YOMIURI SHIMBUN's deputy managing editor, asked the participants if their countries were suffering from toxic waste pollution such as that experienced in the Japanese city of Minamata 30 years ago. Citizens there suffered the devastating effects of mercury poisoning from a factory that dumped its wastes into the bay that provided most of the seafood for the people.

Pollution

Although such a serious state has not been reached in Indonesia, according to state minister for population and

the environment, Dr. Emil Salim, the country is suffering from cases of pentachlorophenol pollution. A large amount of this chemical, used mainly as a wood preservative, seeps into rivers, and people who eat fish caught there have been poisoned.

Salim said Japan is responsible for much of the toxic waste problems in his country because Japan produces many types of highly toxic materials and exports them to Indonesia.

Geping [as published], administrator of the environmental protection agency of China, said that the government has a three-pronged attack toward industrial pollution. First, the government is enforcing previous environmental assessment laws on all development projects' secondly, it is requiring existing factories to submit pollution control measures; and thirdly, it will require those factories to increase their investment outlays for environmental protection.

Malaysia's major toxic waste problem is from the electronic industries, particularly computer and microchip manufacturers. Yong, minister of science, technology, and the environment, said: "It is difficult to find appropriate dumping sites, and money to build them. It is also difficult to gain residents' permission to build such facilities. In addition, small and medium-size companies are incapable of treating the waste materials before they are dumped."

Because of this situation, Yong said the government of Malaysia has called on private enterprises specializing in industrial waste treatment to map out various proposals for the treatment and management of such wastes. The government will choose one of the proposals and have the company procure a dump site and manage it. Yong asked for the Japanese Government's assistance in providing a team of consultants to screen the candidate companies.

To try and counter the greenhouse effect, every country must reduce its production of pollutants such as carbon dioxide, methane and chlorofluorocarbons (CFCs). Industrialized countries produce much more of these gasses than less developed countries and therefore the responsibility rests more on their shoulders.

Some less developed countries are worried that the strict controls on materials like CFCs will hinder their economic development. Salim said that Indonesia's use of CFCs is quite low, but growing rapidly and that unless low-cost alternatives are developed, any regulations would hurt Indonesian industry.

Factoran of the Philippines pointed out the unfairness of this situation in which industrialized countries have consumed CFCs with no restrictions over the past years, and, having reaped their profits, now seek to ban their use globally.

"What we fear is that an expensive alternative will be found, and then only rich industrialized countries will

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FBIS-EAS-89-140-S
24 July 1989

62

benefit," said Factoran. He proposed that developing countries who voluntarily refrain from using CFCs be given greater access to technological know-how on less costly alternatives.

Malaysia's Yong said that concerns such as these have led Third World countries to propose an international fund to help them find and finance alternatives to CFCs when the signatory-member countries met at the first conference in Helsinki last May.

Japan's Role

The less developed Asian nations have many other requests of the more industrialized countries. Yong said: "We want Japan to participate more actively in our projects carried out under the ASEAN Environmental program, including the attendance of Japanese experts in the ASEAN-sponsored conference in this field. We would also like Japanese experts to monitor air and water pollution on a long term basis and to train our researchers in that field.

The Philippines would like Japan to actively participate in its environmental projects. Factoran said: "If we view the environmental issues on a regional basis, Japan should remember that she is not a mere friend but a member of the same family."

Indonesia's Salim expressed his hope that Japan take the initiative in advancing sustainable development in Asia by mobilizing its scientists, businessmen, and citizens. "With its economic strength accounting for 14 percent of the world's GNP, Japan can afford to wield a great influence on those global matters. That is why I want Japan to clarify its own views on the sustainable development in Asia when Japanese representatives attend the upcoming summit of the seven industrialized countries in mid July," Salim said.

China's Geping praised Japan for its success in implementing its environmental policies while becoming an economic superpower, and felt this provided a good example for China to follow.

"Yet we want Japan to take due heed of the Asian environments as a whole. To preserve the environment in Asia will promote the Japanese economy even further," he said.

Aoki, former director general of the Environment Agency of Japan, closed the conference by saying that Japan could play a major role in cleaning up and protecting the environment by providing financial and technological assistance, as well as providing a broad policy framework for action.

"While there have been heated arguments as to how we might procure funds, former Prime Minister Noboru Takeshita and I have reached the conclusion that Japan should make a sizable contribution," he said.

He added that although Japan's total ODA [overseas development assistance] has become the world's largest, reforms in the way it is spent are badly needed.

Since Japan is a leader in the field of pollution control, Aoki said that Japan should provide technical assistance, scientific and other training, and access to information and expertise. Japan could easily transfer such advanced technologies as desulfurization and the monitoring of water quality.

Government Panel Calls for Technological Input OW0207120889 Tokyo MAINICHI DAILY NEWS in English 30 Jun 89 p 11—FOR OFFICIAL USE ONLY

[Text] A government panel has called for Japan to make contributions toward environmental protection on a global scale through advanced technology.

The appeal was made by the Science and Technological Administration Commission chaired by Prime Minister Sosuke Uno.

The commission also advocated expansion of Japan's aid to developing countries in the Asia-Pacific region for environmental protection.

It stressed the need for Japan to develop research to protect mankind from undesirable environmental changes.

The commission referred to examples of environmental destruction and urged Japan to promote international cooperation to prevent pollution by utilizing its advanced technology.

The 33-member panel came up with the report in response to a request by former Prime Minister Noboru Takeshita ahead of the Paris summit of seven leading industrial democracies July 14-16.

Views on Regional Asia-Pacific Cooperation

Foreign Ministry Official Comments OW0107232789 Tokyo MAINICHI DAILY NEWS in English 30 Jun 89 p 11—FOR OFFICIAL USE ONLY

[Text] Japan will not take the lead in actively pursuing the concept of a mechanism for Asia-Pacific cooperation, a senior Foreign Ministry official said.

The official, speaking on condition of anonymity, said that while Japan is not opposed to the concept of a regional economic grouping, it has no intention of working behind the scenes to create a consensus for it among potential member states.

Without such a solid consensus, however, the pan-Pacific entity would be difficult for Japan to support, as a certain problems exist such as how to accommodate Taiwan, a major economic player in the region, the official said.

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FBIS-EAS-89-140-S
24 July 1989

63

The senior bureaucrat expressed surprise at what he described as the "unexpectedly positive" tone of U.S. Secretary of State James Baker's call Monday for "a new mechanism to increase economic cooperation throughout the Pacific."

Baker, speaking in New York during a visit by Japanese Foreign Minister Hiroshi Mitsuzuka, said that in consideration of the rapid pace of Pacific Rim economic integration, a new regional forum is: an idea whose time has come."

Baker said that if a consensus is reached among ASEAN nations and other likely participants, the United States will support Australian Prime Minister Robert Hawke's call for a ministerial meeting on the grouping this fall.

The senior Japanese official said that it is one thing for the private sector to arrange a regional mechanism for multilateral cooperation but another to achieve that purpose at a government-to-government level.

Japanese Foreign Ministry spokesman Taizo Watanabe said Tuesday that Japan and the U.S. share the concept of "some sort of mechanism in which Asia-Pacific nation cooperation can be promoted."

"There is no concrete picture in the minds of either government right now... But we are of the same view that a mechanism of some sort may be necessary," Watanabe said.

Soviet Embassy Source Remarks
OW3006163489 Tokyo JIJI in English 1358 GMT
30 Jun 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, June 30 (JIJI PRESS)—The Soviet Union hopes to participate in a multilateral cooperation plan now under way in the Asian-Pacific region, a Soviet Embassy source said Friday.

The source stressed the Soviet Union as a Pacific nation, saying Moscow is strengthening economic relations with the Asian-Pacific countries.

Australian Prime Minister Bob Hawke has proposed the setting up of an Asian-Pacific economic consultation organization, while the Ministry of International Trade and Industry (MITI) advocates the opening of an economic ministerial meeting for the region.

U.S. Secretary of State James Baker Monday called for a new organization for multilateral economic cooperation in the Asian-Pacific region.

The cooperation projects will be on the agenda at an Association of Southeast Asian Nations (ASEAN) enlarged foreign ministerial meeting to be held in Brunei next Tuesday.

* Direct Investment in ASEAN Countries Continues

41060130 Tokyo NIHON KEIZAI SHIMBUN in
Japanese 6 Jun 89 p 27—FOR OFFICIAL USE ONLY

[Article by Toshio Miki of the Japan External Trade Organization's [JETRO] Kuala Lumpur Center: "Japanese Direct Investments in the ASEAN Region: Why Do Japanese Investors Find Malaysia More Attractive Than Thailand?"]

[Text] 1. Overseas direct investments by Japanese businesses amounted to \$47 billion in Fiscal 1988. Although these investments continue to be North America-centered, some gradual shift toward the Asian region has begun to take place. In Asia, Japanese investors are turning away from areas of NIE's (newly industrialized economies), such as Taiwan and Hong Kong, and turning more toward the ASEAN countries: inroads of Japanese businesses into Thailand and Malaysia have become especially active.

2. Lately there has been an emerging trend among Japanese investors to prefer Malaysia, where the environment for investment has improved due to such steps as the easing of regulatory controls on foreign capital, over Thailand where the problem of lagging infrastructure has come to the fore.

3. For those Japanese businesses that are being compelled to move into overseas markets, an early start-up of their overseas operations is a matter of necessity; Malaysia is in the position to satisfy this requirement. Nevertheless, given the constantly changing investment conditions overseas, it is important for these Japanese businesses to be sure of their investment goals and to form a clear view of what the future may hold before deciding where to make their investments.

Rising Wages Diminish the Lure of NIE's

Since it topped the \$10 billion mark in Fiscal 1984, overseas direct investment by Japanese businesses has been accelerating at an even faster pace.

It amounted to \$33.4 billion and some \$47 billion in the fiscal years 1987 and 1988, respectively. Also, the appreciation of the yen's value, triggered by the Plaza Accord of September 1985, has brought about some changes: for example, the thrust of Japanese direct investments, long exclusively North America-oriented, has been gradually shifting to the Asian region.

Within the Asian region, the present trend indicates that Japanese investors are moving away from their traditional investment markets—countries/areas of the NIES such as Taiwan, South Korea, Singapore, and Hong Kong—and are converging on the ASEAN countries, especially Thailand and Malaysia. The latest noteworthy development is a shift of Japanese investment interest away from Thailand, long a favorite choice, to Malaysia.

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FBIS-EAS-89-140-S

24 July 1989

64

This trend shift in Japanese direct investments is attributable to, among other things, the diminished investment merits of the NIE's countries for export-oriented businesses as a result of such developments in those countries as the rise in wage levels, the discontinuation of preferential tariffs (GSP [Generalized System of Preferences]), and the appreciation of local currencies against the U.S. dollar as typified by the rise of the new Taiwan dollar's value.

In other words, it can be said that considerations of the morphological differences in the economic development of these two regions have led the technology-intensive type of businesses to choose the NIE's countries and to prefer the ASEAN countries, where wage levels are lower, for their direct investments.

As if to corroborate the observation noted above, businesses of the labor-intensive and export-oriented type in other NIE's countries are making investments in Thailand and Malaysia at a brisk pace.

As for the emerging trend among Japanese businesses to prefer Malaysia over Thailand as the place for their direct investments, it is believed to have been triggered by such factors as 1) inadequacy of the infrastructure in Thailand that has surfaced as a result of a remarkably rapid increase in foreign investments in that country beginning about 1986—inadequacies such as congested harbors and a shortage of industrial parks and office accommodations, and 2) the changes made by the Thai Government to its preferential treatment measure for foreign investments—changes designed to bring about dispersion of business enterprises to provincial areas.

It can be pointed out that Japanese companies in increasing numbers have come to rate Malaysia higher than Thailand especially when they are looking for a place to establish an export-oriented and labor-intensive business enterprise.

Let us examine in detail the background factors responsible for this shift from Thailand to Malaysia of direct investments by Japanese businesses, and do so with a comparative look at the investment environment in each of these two countries.

First of all, a wholesale relaxation carried out by the Malaysian Government of its regulatory guidelines for the introduction of foreign capital can be cited as one of the factors. Malaysia, a country situated between Thailand and Singapore, tended to be overlooked more often than not, not only in a geographical sense but in a political and economic sense as well.

In October 1986 Malaysia switched to an "open door policy" for foreign capital by drastically relaxing its law governing foreign investment. Since then, Japanese businesses have gradually come to realize that Malaysia has an environment conducive to worry-free investment because not only is Malaysia as stable as Thailand in terms of the political situation and public security, it also

has a well-preserved bureaucratic structure which was put in place during the years of its British colonial rule.

The relaxation of regulatory constraints on foreign investment was accompanied by parallel efforts to expedite and simplify the procedural formalities related to investment activities. A system capable of expeditious administrative handling was ensured in October 1988 when the Malaysia Industrial Development Agency (MIDA) was entrusted with a centralized role of handling all such investment-related matters as environmental pollution, work permits, and incentives.

Investments of 100-percent Foreign Equity Made Easier

The most significant aspect of the relaxation of the law governing foreign investment is that under the revision it has become easier for foreign investors to have 100-percent equity in their direct investments under certain conditions. In Thailand, too, 100-percent foreign equity investments are approved for export-oriented enterprises; however, under the Foreign Enterprise Control Law which has been put into effect, the current trend is to ensure a "Thai majority" in the capital subscription ratio.

In Malaysia, by contrast, the basic rule is that foreign investment up to 100-percent equity is approved for a business enterprise capable of exporting 50 percent or more of its product.

At present, those Japanese businesses making direct investments in Southeast Asia are motivated by their desire to protect themselves against a decline in their price competitiveness due to the yen's appreciation and to secure markets for their products; what they are trying to do is to transfer their "production/manufacturing base" to a foreign country where they can reasonably expect to be able to begin operations as quickly as possible. From the standpoint of operational resources and technology transfers as well as in the interest of avoiding investment frictions, naturally direct investments in the form of joint ventures are more welcome by the host countries.

But the problem with the joint venture formula is that it takes time because the would-be investor must, among other things, select a partner; inevitably, therefore, the investor prefers the 100-percent equity formula. Especially for those small- and medium-sized companies that are being forced by the rise in the yen's value to move their operations overseas, it is a fair assumption that the 100-percent equity formula is the most expeditious way they can make the move.

In this regard, too, when compared to Thailand where the capital subscription ratio is being regulated, Malaysia is a place where it is easier to make direct investments not just by big corporations but by small and medium enterprises as well; also, the conditions in Malaysia are conducive to an early start-up of a new plant.

FBIS-EAS-89-140-S
24 July 1989

65

By way of corroboration, it is reported that in Thailand it takes 1 year on the average to build and start operating a new plant whereas in Malaysia the same process, including the investment-related formalities, can be completed in no more than about 10 months.

Next, let us turn to the quality of work force and wage levels. In terms of the labor quality, both of these countries are equally noted for the relative diligence and manual dexterity of their workers. This explains why most of the foreign businesses that have made inroads into these two countries are satisfied in this regard.

A comparison shows that the per capita GNP was about \$800 (in 1986) in Thailand while it was twice as much or \$1,600 (same year) in Malaysia.

But when it comes to the actual wage level of the worker employed at a typical plant owned and operated locally by a Japanese company, it is 3,000 baht (approximately 15,000 yen) in Thailand, especially in and around Bangkok, whereas in Malaysia it is 280 ringgit (approximately 14,000 yen). Of course the wage level varies from one business to another, but even just on the basis of the above comparison it seems fair to say that there is not much of a difference in wage levels between Thailand and Malaysia.

Many of the businesses that move into the Southeast Asian markets are from labor-intensive industries that rely on relatively low wages in the first place. If follows, therefore, that when Japanese businesses began realizing that the wage level in Malaysia was just as low as in Thailand, this realization became a factor that has led to a shift in the flow of businesses seeking direct investment opportunities. But Malaysia, unlike Thailand, has a population of only about 17 million (as of 1988), giving rise to an undeniable concern that the country could potentially experience a labor shortage and rising wages.

Nevertheless, the composition of the Malaysian population by age shows that those 24 years old and younger account for more than 60 percent of the total; moreover, the country's unemployment rate, which stands at 8.1 percent, is high. It seems reasonable to say, therefore, that the worrisome possibility of a labor shortage may not be as acute as it is generally believed.

Next, as the third factor, let us examine the status of the infrastructures which has a decisive influence on the direct investment trend among foreign businesses. In early 1980, using its petroleum revenue, Malaysia launched a project to improve its roads, harbors, airports, and communications—those facilities that constitute the infrastructure essential to the country's industrialization.

At the same time, Malaysia also proceeded to build more than 100 industrial parks nationwide. Two things happened when all these efforts to improve the infrastructure were nearing completion: One was the easing by the Malaysian Government of the regulatory controls on foreign investment; the other was the appreciation of the

yen's value. It was the combination of these events, which fell in place nicely at the right time, that led to a direct investment boom in Malaysia by Japanese and other foreign businesses.

In Thailand, on the other hand, a direct investment boom by foreign businesses occurred while the efforts to improve the infrastructure were still in progress. As a result, bottlenecks in the infrastructure, especially the problems of congested harbors and not enough industrial parks, came to the surface all at once in 1988.

During 1988, the demurrage time in Bangkok Harbor averaged about 1 week for a container ship and 4-5 days for a conventional freighter. There is no denying that these problems have begun to weigh on would-be investors as an encumbrance—especially for those Japanese businesses that are eager, under the pressure of the strong yen, to get their overseas venture going as quickly as possible.

Thailand's Lag Is Temporary

Nevertheless, it would be premature to conclude that these inadequacies of the infrastructure have now become a decisive impediment to direct investments in Thailand by foreign businesses.

Thailand has a population of 54 million, and its domestic market is bigger than that of Malaysia's. Many of the foreign businesses, which established manufacturing bases in Thailand to produce goods which the country was relying on imports for, have been successful.

For instance, a 1988 survey of business trends among Japanese-run enterprises in Thailand showed that 80 percent of them were recording gains both in sales and profits. If one accepts the premise that business activity ought to be undertaken from a long-term perspective, one can also say that the current lag in Thailand's infrastructure is only a temporary phenomenon, which is bound to be resolved in due time. And resolving it is precisely the direction the Thai Government is channeling its efforts to right now.

The foregoing is an examination of the policy regarding foreign investment, wage levels, and the status of the infrastructure—the key points of interest to foreign businesses in their direct investment decisionmaking—in Thailand and Malaysia.

Under certain conditions or, more specifically, viewed from the standpoint of only those businesses that are feeling the pressure of the strong yen and eager to bring their foreign venture into an early operation, at the present time Malaysia appears to have an edge over Thailand, where the lag in infrastructure is conspicuous.

But the relaxation of the Malaysian law governing foreign investment, which triggered a direct investment boom in Malaysia by Japanese businesses, has a time limit—it expires at the end of 1990. This time limit

FBIS-EAS-89-140-S

24 July 1989

66

coincides with the scheduled revision of the New Economic Policy (NEP) currently in effect. Although the Malaysian Government is saying that "invested interests shall be guaranteed," it is unclear as to what will be the Malaysian policy on foreign investment beyond that point.

As has been observed above, the investment environment in a given country is subject to change from moment to moment. Thus, it goes without saying that the site selection for any direct business investment must necessarily be made only upon forming a clear view of what changes might occur to such local conditions as wage level and investment environment 3 years or 5 years hence.

The investment rush by Japanese businesses into the ASEAN region is likely to continue in the days ahead. One can say that what is important is for these Japanese businesses to closely investigate the investment environment first and then make the site selection that will most suit their investment objectives as well as the management policy of their companies.

*** Keidanren Mission to Southeast Asia Viewed**
41060127 Tokyo SANKEI SHIMBUN in
Japanese 23 May 89 p 9—FOR OFFICIAL USE ONLY

[Article by Igarashi Akira: "Keidanren Mission to ASEAN Countries"]

[Text] The Keidanren [Federation of Economic Organizations] mission to the Association of South East Asian Nations (ASEAN), aiming to promote investment in developing countries, visited Singapore and the Philippines (from 15-19 May 1989) as its first visit. The ardent welcome by political and financial circles in these countries apparently indicated how they value Japan, the economic superpower. However, visits to both countries also revealed how difficult investing in developing countries is, including the difficulty of lack of needed infrastructures.

On 17 May, when the mission arrived in the Philippines, which was the second country visited on the mission's trip and was to be the highlight, Manila, the capital, was unfortunately struck by a typhoon, which claimed more than 30 lives. The mission stayed at the Manila Hotel, the most prestigious hotel in the Philippines, and a large reception given by all of the political and financial circles was held. But the storm hit the area directly, causing frequent electrical outages at the reception site.

"I don't think that it is a demonstration against us..." one official joked, but a majority of those related to the mission looked upon the disaster with mixed feelings, as a foreboding of the future of investment in the Philippines.

The aim of the mission at this time was to seek out projects for private sector capital into developing countries. Projects which will be carried out by the Japan

international organization for cooperation (JAIDO [Japan International Development Organization]) established by Keidanren.

The total amount financed by JAIDO is still 6 billion yen, which is small in scale, but one-third of this is financed by government sectors. This means that the government takes the initiative for investment by sharing the risks involving projects in which the private sector previously hesitated to participate on their own. Even in Singapore, site of the mission's first visit, the mission received high praise for this project from Prime Minister Lee Kuan Yew, with remarks such as "this project will greatly enhance the private sectors' investment in Singapore." Encouraged by this, the mission arrived in Manila with high hopes.

The Philippines has been seeking Japan's direct investment. This is because Japanese private sector investment is behind that of the United States and Taiwan, although Japan is the largest contributor of economic aid to the Philippines. During the visit, President Aquino met the mission four times before and after the welcome luncheon, and took the initiative in inviting investment.

In response to the requests, the Keidanren showed a positive attitude toward cooperation, and proposed four projects, including construction of an industrial complex in southern Manila as the first project which would incorporate JAIDO's investment.

However, specifics of the project recognize that there are "still barriers to overcome," (Kazuo Haruna, representative of Japan-Philippine Economic Committee and chairman of Marubeni Corporation). The scale and details of the project, such as how many Japanese companies will participate in JAIDO's investment, will be discussed in the future. Also, in promoting the project, the need to complete the infrastructure, including electric power, transportation and communication, and to secure law and order are major considerations.

Of course, the Philippine Government continues to strive for the reform of its domestic systems in order to complete the infrastructure and promote investment. Compared to the end of the Marcos administration, politics and the economy have become increasingly stable. The Multinational Aid Initiative (MAI) for the Philippines, primarily conducted by Japan and the United States, is also a supporting factor for private investment.

However, it seems that the Philippines will still take a fairly long time to reach a level of investment environment similar to that of Singapore and Thailand. The problem is, in the meantime, the extent to which Japanese companies will proceed to invest with a long-term viewpoint, assuming a share of the risks to some extent. What is sought is not just a willingness, but actual investment. It is safe to say that the mission to ASEAN countries brought into question the responsibility of Japan—the economic superpower.

FBIS-EAS-89-140-S
24 July 1989

67

Refugee Camps for Boat People To Be Expanded
OW3006150789 Tokyo ASAHI EVENING NEWS
in English 29 Jun 89 p 3—FOR OFFICIAL USE ONLY

[Text] The government is expected to expand its refugee camps to deal with the massive influx of Vietnamese boat people.

In a monthly governmental consultation on issues involving Indo-Chinese refugees on Wednesday, officials from the foreign, justice and five other ministries and agencies agreed on the need for beefing up governmental and private facilities for refugees.

The Officials also agreed that measures should be taken to help refugees find jobs and places to settle in Japan so that they can leave refugee facilities.

At the meeting held at Prime Minister's Office, representatives of a foundation dedicated to refugee relief reported that currently a total of 1,082 refugees are staying at private and public facilities with a combined capacity of 1,030.

Editorial Comments on Aid to Philippines
OW1207001489 Tokyo MAINICHI DAILY NEWS
in English 10 Jul 89 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Aid to the Philippines"]

[Text] The result of recent discussions held in Tokyo was a decision reached by creditor nations and international lending organizations to provide 3.5 billion dollars in official aid to the Philippines during the next 12 months, culminating a four-year multilateral aid concept aimed at helping the Philippines overcome its economic crisis. Thus Japan's policy of economic aid to the Philippines enters a new stage.

This is characterized by, among other things, a further clarification of the roles allotted to Japan and the United States. Of the total assistance amounting to 3.5 billion dollars to the Philippines, Japan, the largest aid donor, announced that it will extend about 1 billion dollars in official development aid (ODA). This is double the amount to be provided by the United States, the second largest donor to the Philippines and the first nation to propose such aid.

In parallel with this, Japan also expressed its readiness to offer an additional 600 million dollars in loans by the Export-Import Bank of Japan in cooperation with the International Monetary Fund (IMF) as a countermeasure for the Philippines' accumulated debts.

The multilateral aid concept was first advanced by the United States, which sought the allotment of aid among several countries, in order to support the then newly born Aquino administration and, through the political stability and economic development of the Philippines, to assure the political-economic stability and security of the Southeast Asian region.

Later the IMF and World Bank advanced to the front and the impression of American leadership in this aid receded somewhat, but it can be regarded as remaining basically unchanged.

The second characteristic is the emphasis placed on the support for democratization under the Aquino administration against a background of the Philippines' economic growth.

In the past, the premise for Japan's aid was that it should be given from an economic and humanitarian position. But now, a political consideration has surfaced.

In our opinion, the minimum conditions for carrying out such aid are that the government of the country concerned has the support of the people, corruption does not exist, and that the content of the aid will be useful to and welcomed by the people of that country.

There is no intention to deny the advisability of aid to the Philippines, but we believe that the Japanese Government should explain more clearly to the people about the addition of a new characteristic to this aid.

It was only three years ago that the "Marcos scandal" was exposed. In addition, the problem of aid to the Philippines has always been affected by the existence of U.S. military bases in that country.

The aid plan this time is offering new money needed by the Philippine Government to implement its medium-range economic policies over the next four years. The main pillars of these policies are: 1) Elimination of poverty and unemployment through greater equality of income. 2) Activation of the energy in the private sector. 3) Spreading the results of economic growth equitably to local areas.

Heed should be given to the criticism that the use of this aid has been inefficient because of the bureaucracy and shortage of personnel. Efforts should be made in the Philippines to ensure that the aid will produce fruitful and beneficial results.

North Korea

Government Renews Call on Pyongyang
OW2406215489 Tokyo SANKEI SHIMBUN
in Japanese 23 Jun 89 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] The government is to renew its call for resumption of dialogue with North Korea, which has been suspended due to turmoil in the political situation at home. Chief Cabinet Secretary Shiokawa on 22 June met with Dietman Chuji Kuno, member of the Liberal Democratic Party, who is scheduled to visit North Korea soon, and requested that he ask the North Korean side to comply with the proposed intergovernmental talks on the release of the "Fujisan Maru No 18" crew [now under detention

FBIS-EAS-89-140-S

24 July 1989

68

in North Korea]. On 21 June, Foreign Minister Mitsuoka met with Kuno. Prime Minister Uno also plans to meet with him soon to make a similar request.

Kuno is scheduled to begin a visit to North Korea on 27 June to attend "the 13th World Youth and Students Festival" opening in Pyongyang. While staying in Pyongyang until 10 July, he is scheduled to hold talks with Political Bureau member Ho Tam, who is in charge of the North Korean Workers Party's Japan policy.

At his meeting with Kuno on 22 June, Chief Cabinet Secretary Shiokawa pointed out that there are a variety of issues pending between Japan and North Korea, including the "Fujisan Maru" issue. He told Kuno: "The government wishes to settle these issues as early as possible. When you visit Pyongyang, I want you to ask them to start intergovernmental talks at the earliest possible date." In reply, Kuno promised to convey the message to the North Koreans. He said: "I want to contribute to an early settlement of the 'Fujisan Maru' issue."

In calling for dialogue with North Korea last March, then Prime Minister Takeshita announced a new official view in which Japan's self-examination over past history is incorporated. North Korea positively appraised this. Following this, the government proposed to North Korea the reopening of talks through former Socialist Party Secretary General Tanabe when he visited Pyongyang in April. In response, North Korea's Political Bureau member Ho Tam showed a flexible posture, saying: "The government will hold negotiations under its responsibility." However, there has been no further progress in the wake of the turmoil in the Japanese political situation, which led to the fall of the Takeshita Cabinet.

The government believes that the youth festival next month is a good chance to advance dialogue with North Korea. In this connection, in addition to calling for talks through Kuno, the government has decided to approve reentry for 300 members of a delegation of North Koreans in Japan after taking part in the Pyongyang festival.

The government has also spelled out a plan to cooperate with North Korea for the success of the festival, if North Korea desires, by providing equipment and materials. It wants to draw the North Korean side to the negotiating table through such a flexible posture.

South Korea

*** No Tae-u Administration's Ties With Japan**
41050110 Tokyo SANKEI SHIMBUN in Japanese
12 May 89 p 4— FOR OFFICIAL USE ONLY

[Reported by Kuroda Katsuhiko from Seoul: "The No Tae-U Government's Japan Connection"]

[Text] The plan of ROK President No Tae-u, 56, to visit Japan in late May has been postponed due to the political confusion in Japan. On the other hand, on the

ROK side there has been a negative attitude in some quarters toward the scheduled visit on the grounds that "there is no need to visit Japan at this time when there are no serious outstanding problems between the two countries." In the past, connections at all levels existed between Japan and South Korea in the political and financial fields, connections so close that it was commonly called a "cozy relationship." At present, however, obviously, there are no such connections, probably due to the absence of any important outstanding issue. The following is this reporter's overview of the Japan connection, and those advisers on Japanese strategy in the year-old No Tae-u administration.

Completely New Policy Adviser Group

As in the United States, in South Korea under a presidential system of government, the brain trust from the outgoing government is completely replaced by the incoming government. The No Tae-u government retains some leftovers from the previous government, but the policy adviser group for the former president has been almost completely replaced under the new administration.

Well, there are practically no pro-Japanese among the group—presidential assistants and secretaries—who are in daily contact with the president. There are three special assistants to the president. They are: Pak Chol-on (46), No Chae-pong (53), and Kim Hak-chun (46). These three exert a strong influence on the president over the whole range of policy matters, including diplomacy and national security, but have practically no connection with Japan. No Chae-pong, a political scientist, visited Japan last year at the invitation of the Japanese Foreign Ministry, and he got acquainted with high-ranking Japanese authorities for the first time. Kim Hak-chun, an expert on international politics, was a visiting professor at the Tokyo University for a short while and has had an opportunity to attend academic conventions and symposiums in Japan, but has no connection whatever with the Japanese political and financial worlds.

In the case of Pak Chol-on, a former prosecutor, who is known as the ablest presidential aide, he knows little about Japan, partly because he is relatively young. Among the presidential secretaries, Secretary General Hong Song-chol, 63, has little connection with Japan beyond ability to speak Japanese; and Choe Chang-yun, 49, senior secretary for political affairs in charge of foreign affairs, is an expert on the United States, but not on Japan.

Ambassador to Japan Yi Holds the Key

As far as policy toward Japan is concerned, this leaves Yi Won-kyong, 67, present ambassador to Japan and ex-foreign minister, as the man whose judgement will be most influential. Ambassador Yi was a senior to President No in his Kyongbuk High School days, and one of the important members of what is commonly known as the "TK [Taegu-Kwongbuk] group," a policy support

FBIS-EAS-89-140-S
24 July 1989

69

group consisting of prominent personages hailing from Taegu and North Kyongsang Province. Yi and Pak Tong-chin, 66, present ambassador to the United States and ex-foreign minister, form the two props supporting President No Tae-u's diplomacy.

Ambassador Yi, a graduate of the Tokyo University, is an expert on Japan and has a lot of connections there. In addition, Yi Chae-chon, 48, director general of the Asian Affairs Bureau of the Foreign Ministry, with much experience in dealing with the Japanese, is known as a young pro-Japanese.

The connections of Foreign Ministry officials with the Japanese are official in nature, but it does not appear that there is an unofficial channel of connection with Japan in the No Tae-u administration as is apparent from the fact that no pro-Japanese are found in the political circles, except Kim Yun-hwan, 56, a carryover from the previous administration who is currently the DJP [Democratic Justice Party] floor leader; and Pak Tae-chun, 61, chairman of the ROK-Japan Parliamentarians Union.

Kim Yun-hwan, a high school classmate of the president, is a key member of the "TK group." He was once a CHOSON ILBO Tokyo correspondent, and under the Chon administration, he was vice chairman of the ROK-Japan Parliamentarians Union, and has many connections in the Japanese political community. He is one of the people with a lot of influence on the president's Japanese policy. Occasionally, he plays the role of a "special envoy" or an "emissary." As a leader of the ruling party, he is too busy lately with domestic politics to have time to get involved in diplomacy toward Japan. Nevertheless, he visited Japan to attend the funeral services for the late the Showa emperor in an effort to maintain his connections in Japan.

Chairman Pak, a Kingpin in Japan Connection

Pak Tae-chun is the board chairman of the state-operated Pohang Iron and Steel Company and has been a kingpin businessmen with prominent connections in Japan since the Pak Chong-hui administration. He and NDRP [New Democratic Republican Party] President Kim Chong-pil, 63, have more influence among the Japanese than any other Koreans. However, Pak is trying to avoid the limelight under the No Tae-u administration because he is related to former President Chon through the marriage of their children. But, it is certain that in case any trouble crops up between the ROK and Japan, he will be the person on whom the president can rely.

Similarly, Kim Chong-pil, who as the president of an opposition party is not currently in a position to cooperate with President No, may bring his Japan connections into full play transcending the party line, when occasion demands.

Among senior statesmen, former Prime Minister Chong Il-kwon, 71, former member of the Japanese Army and

chairman of the ROK-Japan Association; and Kim Chong-yol, 71, chairman of the ROK-Japan Cooperation Committee, could play an advisory role in relations with Japan, because they have old Japan connections.

In the final analysis, one gets the impression that although no new Japan connections have been cultivated in the political community, new faces with Japan connections are emerging in the financial community.

Change in Generation Gives Hope

Not to mention Pak Tae-chun, who has a lot of friends in the Japanese financial community, Pak Yong-hak, 73, chairman of the ROK-Japan Economic Association, is playing a prominent role in economic relations with Japan. Pak, born in North Korea (DPRK), is the honorary chairman of the Taenong Group, a medium-size conglomerate. In the No Tae-u administration, which has people in key posts who originally came from North Korea, including the prime minister and the speaker of the National Assembly, he is a man who merits attention. Among young businessmen, much is expected of Yi Kon-hui, 47, second-generation chairman of the Samsung Group, the largest Korean conglomerate. He was in the graduating class of 1965 from Waseda University. In the financial community, where a shift in generation is taking place, he may be the hope of a new generation of pro-Japanese. He is regarded as a man who is expected to exert a significant influence on policy toward Japan in the future. Already, he is quietly on the move.

In the field of economic relations, Cho Kyu-ha, 52, managing director of the Federation of Korean Industries (Chongyongnyon), and Kim To-hyong, 45, director of the Japan Office of Korea Institute for Industrial Research, are influential, although they do not operate their own firms.

Among scholars, Professor Sin Hui-sok, 43, and Professor Choe Yong, 56, at the Institute for Foreign Relations and Security, a government agency, are known as experts on Japan. Among men of culture, Yi O-yong, 55, professor at Ehwa University, who has had a book published in Japan; and Kim Yong-un, 61, professor at the Hanyang University Graduate School, have a say on matters concerning Japan.

Experts on Japan among men of the press include: Kwon O-ki, 56, former correspondent in Tokyo, President No's high school classmate, and currently managing director of CHOSON ILBO; Han Chong-u, 56, president of The KOREA HERALD; Sin Tong-ho, 54, managing director of CHOSON ILBO; Yi To-hyong, 55, member of the CHOSON ILBO editorial board; Sin U-sik, 55, managing director of SEOUL SIMUN; Cho Tu-hum, 55, chairman of the HANGUK ILBO editorial board; Song Hyo-ping, 55, member of the HANGUK ILBO editorial; and Nam Si-uk, 51, chairman of the TONG-A ILBO editorial board.

FBIS-EAS-89-140-S
24 July 1989

70

West Europe

* European Move Toward Unification Examined 41060121 Tokyo SANKEI SHIMBUN in Japanese 14 May 89—FOR OFFICIAL USE ONLY

[Article by SANKEI editorial staff member, Yukichi Yagishima]

[Text] Significant Change in Europe

Europe is in the midst of significant change. For 2 weeks in the middle of April, over 40 representatives of government and financial institutions of the European Community countries met in Belgium to exchange opinions. What impressed me about the meeting was Mr Kristoffersen, vice chairman of the EC commission, remarking to the effect that the plans for unification of the European market were running ahead of schedule and there was no way for anyone to stop them.

Nowadays everyone knows that the European Community is moving toward a unified market at the end of 1992. This move toward unification will allow people, goods, capital, and services to freely cross the borders of the 11 EC nations.

"Have you ever thought of forming a single unified market with China and Thailand?" was a question put to me by an EC administrator when I visited the EC headquarters. From the standpoint of a homogeneous people like the Japanese, removing the barriers that separate nations is no simple matter. The future will show that the sharing of financial and political power in Europe will invariably result in centralized power at the EC headquarters, power gained at the expense of the individual member nations.

British Prime Minister Thatcher critically remarked that joining the EC was akin to agreeing to peace under the terms of Genghis Khan. Despite England's objections, the EC is well on its way to unification. Just what is going to happen?

The formation of a single European Community will create a population pool of 320 million people. Compare that to the United States' 240 million and Japan's 120 million. The combined gross domestic product [GDP] of the proposed EC member nations in 1987 came to \$4.2 trillion. This is much more than Japan's GDP of \$2.1 trillion, and about the same level as the United States' \$4.5 trillion for the same year. Considered as a share of world trade, the EC's 38 percent would be larger than the United States' 15 percent, and Japan's 8 percent.

An EC Stressing Social Policies

We, the "economic animals" of Japan, would tend to view these figures in a purely economic sense. The real feeling, however, among the countries in Europe that will be unified within the European Community is one of grappling with the immense problems of environment

and employment facing the EC commission. This is something which is not generally known.

The first point to be dealt with concerns the problems of North and South within the EC region. The major aim in the formation of a unified European Community is increased productivity. As unification progresses, however, it is quite possible that the poorer countries of Portugal, Greece, and Ireland will gradually become poorer. This is because there may be an influx of workers from these poorer countries into the richer ones, a phenomenon which will surely exacerbate the economic differences between the member nations.

Furthermore, the European merger could also lead to increased profits for large-scale enterprises at the expense of smaller firms. This could point to hard times ahead for the overwhelming majority of the European population. In response to this eventuality, an emergency administrative council was formed in Brussels in 1988 and it is slated to continue meeting until 1993. This council has proposed a plan by which the regional economic differences within the EC will be compensated for through increased investment into the poorer areas. This supervisory system, however, would have to be continued well after final unification takes place.

The second point concerns the problem of environmental pollution, specifically, the attitude expressed by West Germany, Holland, and Denmark in relation to the strict enforcement of their environmental protection laws, an attitude not compatible with the growth of large-scale industry. Last year, for example, there was a move by Holland and West Germany to establish uniform auto exhaust emissions standards throughout Europe. The Dutch automakers, whose products meet the strict American emissions standards, looked askance at Peugeot and Renault who operate in France, a country with lenient emission laws. As a result, the Dutch manufacturers were granted special tax breaks for the cars they sold in Europe. In the end, however, all the concerned countries eventually agreed to uniformly adopt the Dutch standards.

Denmark, in a move that illustrates the environmental consciousness of European countries, prohibits the manufacture of canned beer and soft drinks in their country. The EC is currently bringing suit against Denmark for blocking the EC's free distribution of goods agreement. This problem may well continue beyond 1993.

The third point concerns labor within the EC. There are significant differences in working conditions among the 11 EC nations. If national borders were to become nonexistent, there would surely be a mass migration of workers from cheap labor countries, like Greece, to high-wage countries like West Germany. Furthermore, investors would only invest in areas where the labor environment was favorable. This could lead to regional maldistribution of capital and investment.

In order to prevent the occurrence of these problems, the EC must take steps to somehow reduce the inequities of

FBIS-EAS-89-140-S
24 July 1989

71

regional working environments, guarantee worker rights, and find an equitable way to participate in the management of European business. Since last fall, Mr Delors, the socialist chairman of the EC commission, has made it his personal initiative to solve these problems. As there are socialist governments among the EC nations, France and Greece for example, the socialist view concerning making the EC work will be important.

Avoiding Concentrated Investment

How will Japan deal with the EC once the problems are ironed out? Mr Loeff, deputy director of DGI [External Affairs Directorate], has told me that he finds it troubling that the Japanese are investing more in England than Europe. He hopes that Japanese companies who invest in Europe will become genuine EC companies in the manner of IBM.

That's exactly the way it should be. The Japanese tend to be too strongly tied to their own native land. However, Japanese companies finally set up shop in the United States 10 years ago as a means of avoiding increasing trade friction with the Americans. Now while Japanese firms are lining up to set up operations in Europe, the Americans are raising voices against continued Japanese investment in their country. We can't afford to cause a resurgence of the "yellow peril" syndrome in Europe. Under attack from both the United States and the European Community, the Japanese feeling of isolation can only become deeper.

* Impact of EC Unification Examined

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[Seven-part article by Furumori Yoshihisa, former SANKEI London special correspondent: "EC Unification—Light and Shadow"]

[14 May 89 p 1]

[Text] What will be the attitude of the European Community (EC) toward Japan when market unification, toward which the EC is now moving at full speed, takes place near the end of 1992?

What will this mammoth market mean to Japan? This article will look at the EC's attitude toward Japan and Japan's approach toward the EC from various viewpoints.

As I drove into the Sunderland Region, located approximately 13 miles south of England's northeastern city, Newcastle, I could already see, on a general road sign, huge letters which spelled the name, "Nissan." The "English Nissan" automobile factory, which began full-scale production in 1986 in this region, occupies an area of 2.5 million square meters and currently is Japan's largest direct investment project within the European Community.

Northeastern England is an area known for its industry which was regarded as the world's most advanced in the 19th century. Many business groups from Japan paid their respect to the area to learn the coal, machinery, and shipbuilding technologies. The majority of the battle-ships used in both the Sino-Japanese and Russo-Japanese Wars were built in this region. One-hundred years later, however, the situation has been reversed. It is an irony of history that the English now look with respect upon high technology and efficient management methods offered by Japanese industrial plants.

When I requested, in advance, that I be permitted to take pictures of Japanese and English working side by side on automobile assembly lines, Mr Hideaki Hirano, in charge of the Personnel and Public Relations Department at of the Nissan Sunderland Factory, reproved me for my ignorance, "We don't have anything like that." Sure enough, no matter how many times I looked around the vast production factory, involving a press plant, a coating plant, an auto body assembly plant, etc., I saw only English workers. I was told that there were only 40 Japanese, whereas there were 2,000 English workers in the factory.

This British Nissan factory produced 56,500 passenger cars during 1988. Last September, Nissan began to export these automobiles to EC countries other than England; however, those exported to France formed "the eye of the typhoon" in the relationship between the EC and Japan. In spite of the fact that 70 percent of the parts used in the English Nissan are of EC origin, the French Government treated them as Japanese automobiles and imposed severe import controls which would restrict the importation to no more than what would amount to 3 percent of the number of registered automobiles in France.

The current EC regulations concerning manufacturing activities of non-EC businesses state only "when significant manufacturing operations are performed within the EC area, the resulting products will be considered EC products," making no clear provisions concerning the required ratio for the parts to be supplied regionally. However, according to the agreement which the EC has signed with the European Free Trade Association (EFTA), whose member nations include Sweden and Switzerland, when companies in EFTA countries manufacture automobiles in the EC area, if more than 60 percent of the parts are supplied locally, the products are regarded as EC-manufactured automobiles.

While studying the English Nissan factory, I came across the scene of a meeting held by department and section heads on the plant shop floor. They were all English, almost 20 of them, without any Japanese participating, and they were zealously carrying on a discussion. I heard that those men, previously, all had been with other British automobile companies, such as Jaguar, Austin-Rover, English Ford, etc.

FBIS-EAS-89-140-S
24 July 1989

72

At this factory, unlike other overseas factories, such Japanese customs as morning meetings and exercise periods are not observed. With respect to technology, processing of engine machines and design of automobile bodies, which hitherto handled by Japanese as a matter of course, have been turned over to the English. The aim was to make this "once-a-Japanese-factory" have firm roots as an English, as well as an EC, factory.

In spite of this fact, the French Government had no hesitation, whatsoever, in forcing the placing of a Japanese label on the product of a British automobile factory. The British Government protested vigorously and the issue was brought into the Thatcher-Mitterrand summit meeting.

In mid-June of this year, faced with the EC Committee's stand firmly supporting the British contention, France has reluctantly agreed to treat the British Nissan as a product of English origin. However, this does not mean that the problem was completely solved. There is no consensus on what kind of policy should be formulated to regulate overseas site production of Japanese automobiles, especially to regulate percentage ratio of automobile parts to be supplied locally.

Within the EC, assertions that "against Japanese auto manufacturers, a ratio percentage of parts to be supplied by Europeans set at even 80 percent is too low," (Jacques Calvet, president of French Peugeot) or that "What matters is not just the number of parts supplied locally but the question of whether such high tech components as engines and gear shifts are included," (Cesare Lomiti, president of Italian Fiat) continued to be made.

The English Nissan incident unexpectedly brought into focus the zigzagging and vacillating posture of the EC toward Japan. At the same time, it exposed the gap existing between what the EC claims to be its policy concerning the unification of the European markets and the reality of its "disarray of its inside circle."

[15 May 89 p 1]

[Text] In the latter part of March, a seminar entitled, "The Importance of Japanese Business Investment in Britain and the European Market," was held in Glasgow, Scotland, under the sponsorship of the Institute of Japanese and British Economic Research. Two hundred attended the seminar, including businessmen, government officials, and scholars from both Japan and Britain, and participated in a lively discussion. The main theme was concerned with the question of how Japanese businesses will deal with the EC unification which will take place near the end of 1992.

These types of seminars, focusing on the relationship between Japan and the EC after 1992, are being held, one after another, in various European cities. The most overwhelming of all was the JETRO-sponsored [Japan External Trade Recovery Organization] "EC 1992 seminar," held last September in London. A conference hall was jammed with more than 400 in attendance, most of

whom were representatives of Japanese businesses, stationed in European countries, who displayed considerable enthusiasm, filling the hall with their lively interest and discussion. This is an indication of the extent of Japanese concern over the coming EC market unification.

A question always asked at such seminars is "Will the unified EC markets become an economic fortress of Europe?" The unified EC markets will remove the walls which had separated 12 EC member nations; however, in doing so, will, perhaps, the EC be building a fortress with barriers raised still higher against Japan and other non-EC countries? The question is an expression of concern over this possible eventuality.

To such question as this, the EC Commission and heads of participating countries are certain to give the official reply, "No, the unified markets will be open to non-EC countries as well," denying the fortress "theory." However, there are many who point out that the very nature of the EC unification indicates that it is intended for "fortress building."

An American economist widely known in Japan, Professor Lester (Sallow) of MIT, asserted at the "World Economic Forum" held in Switzerland last January that, no matter how the EC might deny such an outcome, EC market unification will create an economic bloc separating the EC member nations from non-EC member nations, and, in effect, will kill the GATT (General Agreement on Tariff and Trade). He points out that the EC's concept of forming a single unit out of the 12 countries so that they can act as one when dealing with non-EC countries is in direct conflict with the GATT principle which promotes "free, nondiscriminatory, and multilateral" trade relationships. Without doubt, the EC is extremely strict in handling new membership applications; and if it were to be as totally open to outsiders as it is to its members, it follows, then, that the framework of the EC would be superfluous.

The degree of closing of the unified EC market to outsiders, namely, the degree of the height of the economic fortress which the EC decides to erect, varies depending on the industrial field and the nonmember nation involved. Mr Brian Hindley, a lecturer at the London School of Economics who is doing research on the EC's foreign policy, states, "Although castle walls may belong to the same Fortress Europe, the EC's real intention is to formulate a strategy enabling them to build the walls facing the United States lower and those facing Japan and other Asian countries higher. On top of this, especially for Japan, the EC will have an anti-dumping canon installed."

The unified EC markets will manipulate in various degrees the height of fortress walls depending upon which outsider they will be dealing with. Moreover, when differences in the field of automobiles and that of

FBIS-EAS-89-140-S
24 July 1989

73

finance are intertwined, a broad question such as "Will the unified markets become a fortress?" becomes virtually meaningless.

In mid-April, France's minister of European affairs, Edith Cresson, told the *HERALD TRIBUNE*, "Japan has taken over the American economy. In order to prevent that from happening to the EC, the EC member countries and the United States should unite and work out strategies for a common front against the economic threat posed by Japan," and in saying this made quite a stir. She warned, also, that Japan's export and investment offensives should not be allowed to take place.

So rattled it was by the violent tone of Cresson's confrontational speech, the Japanese Government did not waste any time in inquiring whether it represented the policy of the French Government. At least Ms Cresson's speech did illuminate the basic design underlying the EC's true intentions, when she stated that the EC should unite with the United States to meet their common enemy, "a threat from Japan." Predictions that the height of economic walls will vary depending on whether they are erected against Japan or against the United States are in complete conformity with this basic design.

[16 May 89 p 3]

[Text] "Mr Dunkel, secretary general of the GATT (General Agreement on Tariffs and Trade) whose cause is the advancement of free trade, asked God, 'When will the United States abolish all of its trade barriers?', and God replied, 'It will not be during the Reagan Administration.'"

This is an anecdote which Michio Mizoguchi, then the Japanese ambassador to Denmark, gave in his talk at an international conference, held in West Berlin last fall, for deliberations concerning the EC-Japanese relationship.

"When Secretary General Dunkel next asked, 'When will Japan completely open its own market,' God replied, 'Not likely in your lifetime.' When the secretary general inquired further, 'Then what about a complete liberation of the European Common Market?', I understand that God replied, 'Not in my lifetime.'"

What this anecdote points out is that the degree to which the EC countries close their markets is so much greater than that of either the United States or Japan that completely opening their EC market is simply unthinkable. Coming from Mr Mizoguchi who was deeply involved in GATT negotiations, this stinging joke drew uncomfortable laughs from the EC participants.

As symbolized by this anecdote, at least when dealing with Japan, the EC's trade protectionism has been very much evident. The most noticeable example of this is the fact that 10 of the 12 EC member nations are imposing a ceiling on the number of Japanese products to be imported, Britain and Ireland the sole exceptions to this policy.

With respect to the import ceiling placed on 130 items, including automobiles, motorcycles, steel and iron products, etc., Japan is ready to present the case to GATT if worst comes to worst, and has demanded that the EC abolish its quotas. Following several meetings held since last fall, the EC has finally agreed to the early removal of the quotas on 42 items. However, there is no prospect of the EC lifting quotas on all remaining items by 1992, when the EC market unification will take place.

Many EC members, including Britain and France, opposing Japan's membership in GATT in 1955, imposed some conditions, and later, in exchange for the removal of these conditions, Japan has reluctantly accepted restrictions regarding the quantity of Japanese goods to be imported.

For instance, the annual importation of automobiles into Italy and Portugal is limited to 3,300 and to 10,000, respectively, which indicates the severity of the restrictions. Since these provisions are aimed only at Japan by the Western countries, they are discriminatory. Although, in a strict sense of the word, Britain, France, and Spain are not party to those restrictions imposed on Japan, still in their own way, each country places a ceiling on the number of Japanese automobiles to be imported, 11 percent (Britain) and 3 percent (France) of their domestic sales volumes, and up to 1,200 vehicles (Spain) a year.

The EC's provisions for importation of Japanese goods, although clearly lacking reasons, in the final analysis, is based on their perception that their own industries will be wiped out unless they take firm measures to meet Japan's heavy attack in the field of exports.

"Unless some strong measures are taken to stop Japan's brutal attack in the field of exports on other countries and its stubborn refusal to open its own markets, Western Europe's economy as well as the world economy and free trade will suffer irreversible damage."

This excerpt displays a typical tone underlying a policy initiative document entitled, "Redressing the Balance—a New Problem in Euro-Japanese Trade," jointly prepared by James Morehouse, a British Conservative member of the European Parliament, and Anthony (Diesdell), an economist attached to the EC Headquarters. The document is full of emphatically described economic threats supposedly posed by Japan. The whole of the EC itself is seeking revisions of such individual cases as Japanese automobile tax, the U.S.-Japan semiconductor agreement, receipt of orders for large-scale public projects, etc., as they all have discriminatory provisions which shut out the EC's products and businesses; currently, they are negotiating with Japan on these points.

It is inconceivable that the EC's stubborn attitude toward Japan will change overnight after the unification of the markets. As a matter of fact, the EC's deficit trade balance with regard to Japan continues to grow, registering 100 billion yen in 1984, 167 billion yen in 1986, and

FBIS-EAS-89-140-S
24 July 1989

74

228 billion yen in 1988. The EC Commission publicly states that the unified markets will not discriminate against Japan and that basically it will be an open market. However, the government of each member nation is doing nothing to change its unyielding attitudes. The whole of the EC, in reality, is constructing many restrictions against Japan, resembling the stings of hedgehog needles; and, in addition to controlling the numerical side of importation, the EC also is imposing anti-dumping tariffs, restrictions on the original manufacturing sites of products, requirements for product parts to be supplied locally, and also requiring reciprocity.

[18 May 89 p 3]

[Text] Economic friction between the EC and Japan is flaring up in the form of anti-dumping tariffs against Japanese products. On the basis of an allegation that Japanese companies are exporting computers, printers, CD players, and semiconductors priced lower than their fair domestic prices, the EC is proceeding with the levying of the anti-dumping tariff. When prices of exports are increased by from 20 to 30 percent by anti-dumping tariffs, in addition to the increases already made by regular customs duties the resulting total product prices will greatly handicap Japanese companies. Especially for Japanese businesses determined to challenge the unified EC markets in 1993 and thereafter, the question of how to deal with the EC-imposed anti-dumping tariffs constitutes a problem of immense importance and one which must be solved. One method employed by a Japanese company which is most frequently talked about recently is that of the six-page advertisement placed by Epson UK (Great Britain), a subsidiary of Seiko-Epson, which has appeared in Britain's top economic newspaper, FINANCIAL TIMES.

On the first page of this advertisement, there is a huge picture of the face of a Japanese woman, wearing a kimono and a Japanese style hairdo, looking much like a geisha. On each succeeding page, one notices a slight change taking place in the face, and finally, on the last page, the face is transformed into that of Prime Minister Thatcher. Below the gigantic portrait of a woman on each page, a statement was printed out, pointing out to general consumers that levying the anti-dumping tax on Epson's printers, which are imports from Japan, will mean more inflation for Britain, increased unemployment, and depressed investments; and that it will be the average consumers who will suffer most should this eventuality take place.

About the same time, on the basis of its suspicion that Japan's major electronic firms were "dumping" their printers exported to the EC, the EC slapped a temporary customs duty on the imported products. What Japan was most concerned about was how the EC would go about changing these "temporary" tariff measures to "permanent" measures.

The novel idea of an advertisement showing the gradual transformation of a Japanese geisha into the British prime minister had become the big topic of conversation among the EC member countries.

"Although some said that it was entirely improper to use the prime minister's face in the advertisement, we have succeeded in making people aware of the paramount issue for deliberation. From the profit point of view, it proved rewarding in that although the temporary customs duty levied on printers had been set at 33.4 percent, the permanent customs duty was established at the lesser rate of 25.7 percent. The difference can be translated into a gain of almost 1.8 million pounds (approximately 4 billion yen) a year, which was more than enough to pay for the advertising cost of 120,000 pounds," said Masakazu Mukozaka, president of Epson-UK.

The usual practice followed by Japanese companies when faced with this type of problem had been to maintain their silence; for this reason, the Epson-UK's advertisement was meaningful in that it cast a new image for them as that "Japanese corporation which speaks out."

In spite of what has taken place thus far, step by step, the EC Commission continues to spread the "dumping" tariffs net. The EC's anti-dumping tariffs, already in effect, are now extended to product parts as well. Using Japanese printers as an example, even if they are manufactured within the EC area, unless 40 percent of their product parts are supplied locally, they will receive the same treatment as products made wholly in Japan and thus the anti-dumping tariffs will apply automatically.

The EC's provisions such as this, needless to say, are based upon the EC's apprehension over the influx of high quality, low-priced Japanese products; if left alone, these will destroy the EC's industries in highly competitive markets. Moreover, behind all this, there is the perception that "the reason why Japanese companies can sell their products at low price in the EC is that, at the same time, they can sell the same products at much higher prices in their own Japanese markets which are protected unfairly by high customs duties, non-customs duty barriers, and by oligopoly, thus enabling them to make huge profits," (Willy (Doktrek), former member in charge of EC External Affairs Directorate).

Contending that, of the EC's anti-dumping tariffs, those applying to product parts in particular clearly are "GATT violations," the Japanese Government has brought the case to the GATT's trouble shooting panel. However, the EC maintains its tough posture, stating: "Taxation is a natural course of action to take when dealing with Japan's round-about measures for avoiding the anti-dumping tariffs."

However, those who are involved in Japanese companies strongly question the validity of anti-dumping tax computation itself. For instance, computation methods for domestic prices and export prices appear to be one-sided, advantageous only to the EC. Mr Hisataka Kamio,

FBIS-EAS-89-140-S
24 July 1989

75

who has been dealing with this problem consistently at Epson-UK, expressed his dissatisfaction by stating, "The computational base is totally ambiguous; whenever we ask for more precise explanations, the EC authorities will always mention their duty of adhering to secrecy, thereby putting an end to the question right then and there."

However, behind the anti-dumping tariffs are problems of a much broader scope, such as the realities of the relationship between the EC and Japan and the EC's view of Japan, leading to the creation of impenetrable high economic barriers. It does not appear that this basic structure can be readily changed, even as the date of EC market unification comes nearer.

[19 May 89 p 3]

[Text] "If France exported a million bottles of her specialty product, wine, to Japan annually, France, then, must import the same amount of Japanese wine in return—have you ever heard anything more absurd? And yet, this is the reciprocity of which the EC Commission speaks."

At the EC-Japan related seminar held in Glasgow, Scotland, last spring, one of the lecturers, Mr Dan Pinchbeck, head of the General Affairs Department of Epson-UK, spoke sarcastically of the EC's idea of reciprocity. He is an Englishman, but, putting himself in the shoes of a Japanese company owning a plant in England, he sharply criticized the concept of "reciprocity", which the EC Commission has begun advocating repeatedly in recent days, as nothing more than unrealistic protectionist trade ideology.

In the formation process of the EC's foreign policy, the concept referred to as "reciprocity" lingers much like some kind of unknown monster. It is a distinct possibility that, under the name of so-called reciprocity, the door to the newly unified EC markets could be tightly shut in the faces of Japan and other non-EC member countries. The Japanese involved in this situation, therefore, tend to regard the slogan, "reciprocity," as the greatest threat posed to them by the EC unified markets. The vagueness of the meaning of the word, "reciprocity," so frequently advocated by the EC, further adds to the anxiety felt among the Japanese.

The idea of reciprocity involving non-EC member nations was first mentioned officially by a (Willy Dok-trelk), then the commission member in charge of the EC's foreign affairs, in the summer of 1988, and on the following October, a rough description of the reciprocity was presented in a commission memorandum.

The new unified markets will abolish the economic walls which have separated the EC member nations; and, in conformity with the GATT (General Agreement on Tariffs and Trade) and other international trade rules, a maximum opening up of the new markets will be provided to non-member nations. However, in service sections and others in which international rules are not

applicable, the door will be opened to non-member nations only to the extent of market access and economic benefit which each non-member country is willing to provide to the EC. In other words, the new markets will be open to non-member nations in the form of mutually balanced and matched market access and economic profits; if the other nation closes its door, the EC will do the same—this is the basis for EC's "reciprocity." Since the EC applies the reciprocity to each field of each industry, it is not surprising that it has resulted in the extreme interpretation, offered in the opening paragraph of this article.

In actual situations, it can be difficult to quantify neatly things like market access and economic benefit. Moreover, there is no simple answer to the question of how perfect balance and correspondence should be achieved when the two countries in question have very different economic structures. For this reason, the Japanese side strongly opposes the idea of reciprocity, "The concept of reciprocity can be used in any way one wishes if it is one's own interpretation that determines what it means. This is a dangerous situation in international economic relations. Since the EC authorities have not defined the concept clearly, this failure is creating a great deal of confusion among the Japanese," (Muneoki Date, Japanese ambassador to the EC). Even within the EC's circle, criticisms such as, "In the final analysis, reciprocity is a totally ambiguous concept, which can easily be turned into a protectionist whip," (from the editorial of Britain's FINANCIAL TIMES) were made.

It probably is in finance that the Japanese fear most the possibility of winding up at the receiving end of "the reciprocity whip." The reason for this is that, in January of this year, "the Second Bank Directives Plan," which determines the establishment of a single market for the EC banking business, hammered out, in no uncertain terms, the application of reciprocity to non-EC member banks. Since the EC's banking system is based on the idea of universal banking, which had removed the walls once separating banking from security businesses, the possibility of EC's closing its doors to Japanese banks, which adheres to rigid separation of banking from security business, on the basis of "reciprocity," does exist.

The revised version of the second bank directive plans contains a newly added stipulation that if Japan and other non-EC member nations would treat the EC banks in exactly the same way they would treat their own banks, the EC then would not restrict Japanese banking activities within the EC areas, thus somewhat diluting reciprocity. However, other articles in many places still ooze with the reciprocity principle, leaving a path through which the EC can turn these into a powerful economic whip should it so choose.

As long as this concept of reciprocity can be implemented, the harder the Japanese side must work in order to get themselves into the unified markets, and the greater the degree of openness they must create in their own markets. How far, then, the Japanese will be willing

FBIS-EAS-89-140-S
24 July 1989

76

to go in opening their own markets becomes the key to the whole problem. In this sense, the unified EC's interpretation of reciprocity does provide Japan with an excellent opportunity, forcing her, as it were, to consider her own ways of dealing with foreign countries.

[20 May 89 p 3]

[Text] Portugal's second largest city, O Porto, is known as the best place for port wine. Its streets are lined with rows of houses reminiscent of the city's past history. In an approximately 30-minute drive from these city streets toward the south, among the pine trees, I found Yazaki Sogyo's wire (wires used in automobile assemblies) manufacturing factory.

Its official name is the Yazaki-Sartano-Portugal Automobile Electrical Parts Company. The company is a joint venture involving a Portuguese company, with Yazaki investing 60 percent of the capital and furnishing all of the required technologies. It is a Japanese company's production stronghold, located within the EC area.

When I entered the well-lighted plant, I immediately noticed that the overwhelming number of workers were young women dressed in orange uniforms. These small, dark-haired young women with gentle facial expressions were wrestling with tangles of electrical wires with much enthusiasm. Three-fourths of the approximately 1,700 employees were women, and the average age of the entire staff was only about 21.5 years. Only 17 out of all the employees were Japanese.

However, of Japan's direct investments in the EC amounting to a total of approximately 196 billion yen, those in Portugal amount to not more than 2.7 billion yen, the lowest in the 12 EC member nations. Moreover, its GNP, also, is the lowest, and the infrastructure (social capital) investment is considerably behind that in other countries. In spite of these factors, the foremost reason why Portugal has been selected as a production base, according to Morio Shiya, president of Yazaki-Sartano, was its low labor costs. "Since wire manufacturing involves extremely labor-intensive production, the first thing we were looking for was a country offering cheap labor." In addition, in labor-intensive type businesses, human relationships are extremely important. In that respect, the Portuguese who have learned in their history classes in school of the interchange which took place between Japan and their country on Tanegashima Island, have friendly feelings toward Japanese. There definitely is a degree of rapport between these people and Japanese, perhaps because in many ways they are similar in their emotional make-up and in their physical appearances.

This company was founded in 1986, the same year in which Portugal joined the EC. As the company president, Shiya, himself, states, "Frankly, we do not regard this country as a market," what the Japanese company is after, actually, is the entirety of the EC markets soon to

be integrated. Last year, the company produced 29 billion escudos (approximately 23 billion yen) worth of goods, using, in 60 percent of the production, parts which were supplied locally. The products were mainly sold to British Nissan, with the remainder shipped to overseas companies, European Ford and Volvo. These activities can be described as a strategy which the company is pursuing, side by side with Nissan, to secure entry into the unified EC markets.

With an eye toward 1993 and thereafter, Japanese companies' direct investments in the EC have been increasing at a rapid rate recently. The figures for 1987 and 1988, when compared with each previous year, namely, 1986 and 1987, respectively, have registered sharp increases of 89 and 90-plus percent, respectively. The announcements of the decisions made by Toyota and Fujitsu to construct an automobile factory and a semiconductor factory, respectively, in England are two examples of this investment trend, and hit headlines of the European papers.

Behind the current investment rush is a perception among Japanese businesses that, as the unification of the EC markets approaches, the EC will intensify the enforcement of its anti-dumping tariffs and other regulations directed against companies of non-member nations with utmost speed.

In other words, before the walls of the economic fortress can be raised to an impossible height, Japanese companies are attempting to enter the interior of the fortress.

In the case of semiconductors, previously, if circuit components were made in the EC, the entire products were treated as EC-manufactured, even if the circuit boards are made in Japan. Last February, however, the EC Commission issued new regulations, stipulating that circuit boards also must be made in the EC in order for the products to be considered as EC-manufactured goods. This was the reason why Fujitsu had decided to build a factory in England. The EC Commission's decision on Ricoh-USA copiers, that is that they will be treated as Japanese products, has accelerated the pace of Japanese companies in setting up production facilities located inside the EC "fortress."

The current Japanese direct investments in the EC are concentrated in England, exceeding 35 percent. The reason for this is that, in addition to the fact the British Government welcomes foreign investors, especially Japanese, the country offers a quality labor force, and its language, English, is an international language.

The attitude of the EC as a whole toward Japanese investments is a more complicated one. For instance, Italy is openly critical of the concentration of Japanese investments in England. France refers to Toyota's automobile factory located inside the EC as "Troy's hobbyhorse," flashing the implied warning that Japanese investments throughout the entire EC will be a threat to French industries.

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FBIS-EAS-89-140-S

24 July 1989

77

Mr Toyomitsu Tamao, president of the Nomura Research Institute, said, "These direct investments should be made with the goal in mind of becoming true EC businesses. For this reason, profit should not be the sole factor to consider; it will be necessary, also, to think about how they can bring out the potentials of the various areas involved.

However, before all of this takes place, the fact that the investment recipient, the EC, does not have either an overall policy or long-range vision, seems to cast a precarious shadow over the current investment boom.

[21 May 89 p 3]

[Text] After 3 months of gathering material with the unification of the EC as its theme, what I have come to feel very strongly is this: that if one were to listen to only statements emanating from the EC, he would not be able to grasp the true situation surrounding the EC market unification.

This organization, with its 17 commission members as a nucleus, appointed by the governments of the 12 member nations, tends to speak only of a safe formula with the greatest common denominator in ideas agreeable to all EC member nations. Where "flashy" national interests of the member nations collides with one another, the commission tends to don a veil and very often merely discusses what ideally should be done.

Although the commission's function has been strengthened recently, the ultimate decisionmaking power resides with the government of each of the member nations. When dealing with proposals of critical importance, no matter how precisely the commission has drawn up a plan, if but one member country says "No," then the commission will have to start all over again. "A decision by the EC Commission" is not the same thing as "a decision by the EC."

What the commission members tell the outside world, in most cases, is nothing more than official reasons; however, when dealing with problems concerning Japan, they tend to reveal their honest reasons with a stab at Japan with their statements at times. When I had an opportunity to talk with Mr (Niko Viktor), special assistant to Frans Andriessen, vice chairman of the EC External Affairs Directorate, I heard him say, "It is totally unclear to us what kind of policy Japan is formulating toward the EC. This may be due to lack of understanding on the part of the EC, but the Japanese Government would not clearly express their own thoughts." When I asked him about the EC's own opaqueness in matters concerning anti-dumping customs duties, his refutation came right back at me, with his insistence that it is Japan who does not make herself clear.

"Take, for example, the GATT Agricultural Policy Conference, held in Montreal last December. I was at the

conference and saw a Japanese Government representative sitting silently and not making any kind of statement. Other countries wanted to know where Japan stood regarding certain matters and what her opinion was, but no speech was forthcoming. The same thing can be said of her relationship with the EC. It is this silence which is obstructing the development of healthy cooperation between the two.

However, from Ambassador Muneoki Date, at the Japanese Government Representation Section of the EC in Brussels, I heard a completely opposite statement on the matter, "Although 30 years have passed since the Rome Treaty was signed, the EC is yet to formulate a common trade policy toward Japan."

Such mutual criticisms as these, in the final analysis, are expressions of distance, not only in terms of economy and trade but also in culture and society, which separate Japan and Europe. As the EC moves closer to its unification, friction between Japan and the EC will become sharper, the principal cause of which is the "distance" between these two.

Mr Toyomitsu Tamao, president of Nomura Research Institute-Europe said, "The Japanese industries have done a fairly good job in developing policies for dealing with the United States and Asia; however, with respect to Europe, they lag far behind. Europe is essential in Japan's complete international strategies, and I can feel that the Japanese industries are now impatiently attempting to make some progress in establishing their European policy. Probably what he meant is that their European policy naturally should include efforts in non-economic areas as well. Mr (Viktor), special assistant officer, also stated, "We cannot deny that EC members are afraid of the threat posed by Japan's dynamic economy." Without doubt, a diagram which can be drawn of the economic relationship existing between Japan and the EC will show, as its basis, Japan's "attack" and the EC's "defense."

Concerning this allegation of Japan's "attack," Mr Kimiaki Yatsuto, president of Oki Electric-Europe, states, in a tone of self-admonishment, "Even if the Japanese industries can manufacture better products at lower prices than the EC, if they march into the EC countries like wolves descending on a pack of sheep, naturally Japanese industries will be hit hard later on. There are many points which are hard to swallow in the EC's assertions; however, if Japan were to continue taking actions based solely on economic theory, she will wind up eventually paying too high a price.

This, in another sense, means that consideration of non-economic areas is vital in drawing up a new economic relationship between the EC unified market and Japan.

It may sound like a platitude, but in order to build a harmonious economic and trade relationship of the kind which will be mutually beneficial to Japan and the EC,

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FBIS-EAS-89-140-S
24 July 1989

78

they must make an effort to promote deeper understanding and cooperation in non-economic areas as well, for the distance between Europe and Japan is still enormous.

Business Urges Government To Keep EC Market Open

OW3006230389 MAINICHI DAILY NEWS
in English 29 Jun 89 p 7—FOR OFFICIAL USE ONLY

[Text] A business leaders group Tuesday urged the government to push market-opening and deregulation policies as a means of preventing the European Community (EC) from turning protectionist after the scheduled integration of the EC market in 1992.

Japan should unilaterally abolish tariffs on all industrial products but call upon the EC to stick to the principle of free trade, the Japan Association of Corporate Executives (Keizai Doyukai) said in a report.

The report was prepared by the group's Committee on Europe, chaired by Shinroku Morohashi, president of Mitsubishi Corp., a major trading house.

The association said it is vital for Japan to develop cooperative relations with Western Europe, which are tenuous compared to strong ties between Japan and the United States and between Western Europe and the United States. It especially important, the group said, because interdependence is deepening in the world economy, Keizai Doyukai said.

It noted that the EC is already a mammoth market, with its 12 member nations having combined population of 320 million and boasting a gross domestic product (GDP) of 4 trillion dollars.

The planned removal of mutual barriers within the common market will result in boosting the regional economy, which in turn will provide outside corporations in Japan and elsewhere with expanded opportunities to do business in the EC, Keizai Doyukai said.

But it expressed concern that the EC may adopt exclusive and protectionist policies toward outside countries, noting that some EC nations still retain discriminatory quotas and slap anti-dumping duties on imports from Japan.

There also is an argument within the EC that the integrated common market should pursue a policy of mutuality toward outside countries, it said. The exact contents of such mutuality have not been defined.

Accord With EC on Chip Exports Nears

OW1707131989 Tokyo THE DAILY YOMIURI
in English 16 Jul 89 p 8—FOR OFFICIAL USE ONLY

[Text] Japan's 11 semiconductor makers, including some foreign firms operating in this country, are nearing an accord with the European Community Commission to

settle a two-and-a-half-year-old semiconductor trade dispute with EC makers, it was learned Saturday.

According to industry sources, both parties in the dispute will shortly conclude an agreement to adopt a floor price (minimum price) system for Japanese-made semiconductor exports to EC countries, effective toward the end of July.

The Japan-EC semiconductor trade conflict erupted in December 1986 when a group of EC semiconductor makers filed a complaint with the EC Commission against alleged "dumping practices" by Japanese chip makers.

The sources said the proposed minimum export price accord would be valid for the next five years and cover a wide range of DRAM (dynamic random access memory) chips, including next-generation four-megabit DRAMs and 256-kilobit ones.

Under the agreement, the Japanese semiconductor makers and foreign makers operating in Japan would work out uniform minimum export prices according to the kinds of semiconductors by taking into account their production costs and market shares in the world semiconductor markets, the sources said.

*** Banks Move Toward M&A's in Europe**

41060121 Tokyo NIHON KEIZAI SHIMBUN in
Japanese 24 May 89—FOR OFFICIAL USE ONLY

[Text] Mitsubishi M&A [merger and acquisition] Office To Move to London Next Month

Japanese banks are moving toward M&A financing in Europe. Fuji Bank, as well as the Nippon Trust Bank, are following the lead of Mitsubishi Bank which is setting up a special M&A office in their London branch on 1 June. Japanese banks plan to become active on the continent before unification of the European Community by preparing to take part in what is viewed as a growth market for M&A. Through the establishment of specialized M&A offices in the United States and Europe, Japanese banks are looking to form an international financial network.

Mitsubishi's London M&A office will serve as the bank's European data development center, and although located in their London branch, will organizationally fall under control of Mitsubishi's main data development office at their headquarters in Tokyo. Initial M&A personnel will include two staffers in Tokyo and three in London with the number expected to steadily increase.

Mitsubishi plans to cover every region of Europe with their M&A services. The bank will transfer personnel from their central data development office in Tokyo to Europe, a move which will result in Mitsubishi M&A offices operating in four major cities—Tokyo, Los Angeles, New York, and London.

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FBIS-EAS-89-140-S
24 July 1989

79

In a similar move, Fuji Bank will set up an M&A office in their London branch on 1 June with two staffers. Fuji's London outpost will serve as an extension of their business development section located at the main branch in Japan. Fuji's London M&A personnel are expected subsequently to total five or six. Fuji will also establish an M&A firm in the United States in June as a joint effort with the James D. Wolfson Investment Bank.

The Nippon Trust Bank will also send a staff member to start up their special M&A office at their London branch. Sanwa Bank, Sumitomo Bank, and other financial institutions are likewise sending personnel to establish M&A offices at their London branches and have made known their plans to expand these offices.

The M&A explosion results from Japanese banks seeking to expand their activities to Europe as well as an expected boom in the demand for M&A financing resulting from the unification of the European Community in 1992. At present, Japanese investment in non-Japanese firms has been mostly in American companies, but Mitsubishi Bank is saying that the opportunities in Europe will soon equal those in the United States.

Moreover, outposts in Europe will allow Japanese banks to cover the three main areas of world economic activity which are centered in Japan, the United States, and Europe. The hasty effort to put together M&A operations stems from a desire by the banks to attain the self-financing rate set by the BIS (Bank of International Settlements) and to use their financial might as a means to profit from M&A fees without increasing their holdings.

EC Official on Treatment of European Companies
OW1007044489 Tokyo YOMIURI SHIMBUN
in Japanese 6 Jul 89 Morning Edition p 7—FOR
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[Text] Commissioner Andreas van Agt of the EC Commission in Japan held a news conference at the commission's office in Chiyoda Ward, Tokyo, on 5 July. On the application of the concept of mutuality (opening the EC market to a degree commensurate with the degree of openness of the market of the country in question), he said that "it is important for EC companies operating in Japan to be treated in the same way as Japanese companies are; we do not demand that the Japanese system be the same as the EC's."

He revealed for the first time that he is not thinking of demanding the introduction of universal banking (dealing in both banking and securities) in Japan.

However, the commissioner showed concern for the fact that the Ministries of Finance and Industry and International Trade make wide-ranging use of extra-legal unofficial administrative guidelines. He pointed out that "in the application of mutuality, it is necessary to pay attention to whether administrative guidelines treat (EC companies) fairly."

Furthermore, on the question of restrictions imposed by EC members on car imports from Japan, such as in the form of quantitative restrictions, he stressed that if this would be adopted as restrictions imposed by the EC as a whole, "we will take care not to violate GATT rules and conduct prior consultations with the country concerned."

Comments on Integration
OW1007043889 Tokyo ASAHI SHIMBUN
in Japanese 6 Jul 89 Morning Edition p 13—FOR
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[Text] Commissioner Andreas van Agt of the EC Commission in Japan held a press conference at the commission's Tokyo office on 5 July. Regarding discriminatory quantitative restrictions imposed by various EC member nations on imports from Japan, the commissioner said: "After the integration of the EC market in 1992, the quantitative restrictions on imports from Japan imposed to date by individual member nations will be abolished. However, quantitative restrictions at the EC level will probably continue in several areas." As for actual items eligible for continued quantitative restrictions, the commissioner hinted at the possibility of including cars in the list by saying, "Cars will probably be one of the items eligible for quantitative restrictions at the EC level."

A total of 11 EC member nations, with the exception of Great Britain, have imposed quantitative restrictions on the import of some 140 items from Japan. At the unofficial Japan-EC consultations held last February, the EC side indicated the phased abolition of quantitative restrictions on 47 items. However, since strict restrictions will continue on the import of products of advanced technology, about which the Japanese side has the greatest concern, the issue is currently the most serious one pending between Japan and the EC.

Meanwhile, the commissioner said that the following considerations will be given to foreign nations: 1) importance will be attached to coordination between quantitative restrictions and the GATT (the General Agreement of Tariffs); 2) quantitative restrictions will be provisional measures after integration and will not be carried on into the 21st century; and 3) prior consultations will be held in case of introducing a quantitative restriction. He also stressed that no unilateral protectionist measures will be taken.

National Affairs

*** Opposition Parties Propose Political Reform**
41050106 Tokyo ASAHI SHIMBUN in Japanese
7 May 89 p 2—FOR OFFICIAL USE ONLY

[Text] From "Total Ban" To "Status Quo"; Coordination Difficulties Anticipated

Just about all opposition parties have come up with their proposals concerning political reform. In reflection on

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FBIS-EAS-89-140-S
24 July 1989

80

the Recruit scandal, all proposals incorporate control of stock transactions by elected officials and that of fund-raising parties. Four parties, consisting of the Socialist Party, Komeito [Clean Government Party], Democratic Socialist Party, and the Social Democratic Federation, hope to consolidate their proposals into one joint proposal shortly after the end of the May holidays and make it the strategic focus of their plan to establish a joint opposition party administration, targeted at the House of Councillors' election this summer. However, individual parties' positions on the focal issue of corporate donations vary widely from a "total ban" to the "maintenance of the status quo," reflecting the different circumstances of each party. Coordination efforts are thus likely to face difficulties.

The Komeito and the Communist Party take the most restrictive stance concerning donations by corporations and other organizations. The two parties advocate a total ban of the practice, calling it a "breeding ground of suspicion and corruption" (according to the Komeito).

The Socialist Party, in contrast, proposes a lower ceiling for corporate donations of 20 million yen (a drop from the current annual ceiling of 100 million yen), putting it at the same level as the maximum currently allowed for donations by individuals. The party asserts that an immediate ban on all corporate donations would send politicians scrambling for other loopholes for money to finance campaigns, even though the party stated that the majority of donations would eventually come from individuals. The party's proposal is a compromise between the dominant opinion within the party in favor of a total ban and the opposing view supported by members of the Diet who are at the receiving end of corporate donations. These Diet members question the sensibleness of discussing donations by large corporations and those by small entrepreneurs in the same way. The party also fears that the Liberal Democratic Party may retaliate by insisting on the banning of donations from labor unions, if the Socialist Party supports a total ban of corporate donations.

The Democratic Socialist Party did not include any restrictions on the limit for donations in their current proposal, stating that corporations are as much members of the society as any one else, and thus there is no reason to eliminate only corporate donations (according to a top-level party official). As to the future course of action, the party has decided to push for an annual ceiling of 120,000 yen, on condition that the government will provide a subsidy to political parties (pursuant to the Political Party Reform Act).

Currently, elected officials and political organizations accepting more than 1 million yen from one person have to disclose the donor's name. Although all parties agree that the ceiling should be lowered to make the source of political funds more inclusive, the actual levels of proposed ceilings vary widely from party to party. In contrast to the Socialist Party's proposed limit of 100,000

yen and the Komeito's 50,000 yen, the Democratic Socialist Party suggests a much higher ceiling of 500,000 yen.

Because the requirement to disclose donor names tends to discourage large donations by corporations and individuals, it is not anticipated that it will be easy to iron out differences among the parties.

In the meantime, three parties, consisting of the Socialist Party, the Komeito, and the Democratic Socialist Party, agree that fund-raising parties for politicians should be limited to those organized by political groups. In addition, both the Socialist Party and the Komeito propose a ban against the use of gains from sales of stocks and real estate as part of political funds. These examples illustrate a consensus among parties on many issues.

Editorial on Changing Politics, Election

OW0807133289 Tokyo MAINICHI DAILY NEWS
in English 7 Jul 89 p 2—FOR OFFICIAL USE ONLY

[Editorial: "The Upper House Election"]

[Text] With the House of Councillors' election campaign in full swing, one question comes to mind: Does a nation only have the politicians it deserves?

With the Recruit scandal, the consumption tax and the inability of politicians to clean up their act, public distrust in politics is at its peak. Of course, the public may be partly to blame for having chosen the politicians, but this is not at the heart of the matter.

For the voters to accept the above observation means subscribing to the international criticism of Japan as having "a first-rate economy and third-rate politics." The problem lies with politics themselves, which have become so far removed from the ordinary people. This election, then, is a golden opportunity for reviving politics and returning them back to the domain of the people. In that sense, the choice of the people is more important than ever.

No national election ever had more clear-cut issues, therefore the stance of each party toward political ethics must first be examined.

Despite the severe public criticism of money politics since the Recruit scandal, the Liberal-Democratic Party [LDP] has grown equivocal about its responsibility in the matter. Discussions on reform measures, such as stronger control over political funds thereby ensuring above-board behavior, are at a standstill, while the LDP reform panel is simply emphasizing a change in the electoral system, mainly to introduce smaller, one-man districts. The opposition parties are critical of this attitude and are calling for tighter discipline and real reform.

If these politicians are avoiding the Recruit affair and are unable to reform themselves, it is up to the voters to

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FBIS-EAS-89-140-S

24 July 1989

81

exercise their vote and prod them into more self-reflection, which will quickly change the political situation.

The second issue is the consumption tax, which the government and the LDP forcibly enacted without seeking the views of the public.

The LDP insists that an indirect tax, a burden that can be spread broadly and thinly among the people, is inevitable to respond to our rapidly ageing society. The opposition, however, is calling for a repeal of the consumption tax as well as a rectification of the unjust tax system, arguing that the new tax has imposed a heavier-than-expected burden and produced new injustices.

Faced with strong public dissatisfaction, a move for reviewing the consumption tax is emerging in the LDP. Thus, the election provides a fitting referendum on the tax, and the people's verdict will influence not only a review but also whether it will be continued.

The opposition parties, meanwhile, in seeking public support, must reveal concrete revenue programs should the consumption tax be repealed.

The same goes for the liberalization of farm products. Liberalization is inevitable in the general trend of internationalization, but if the opposition parties are against it, they must show rational cause and present proposals to deal with outside friction.

The third point is that this election provides a choice as to what Japan's future political course will be. The focus, of course, will be on whether the LDP will lose its majority and see a reversal of power. The fate of the administration of Prime minister Sosuke Uno is not the only thing at stake. The outcome of this election could bring about political upheaval and accelerate a dissolution of the House of Representatives and spark a general election.

The fear is growing within the LDP that the severe criticism raised against it in recent elections will be repeated. If this happens, it could bring monumental changes to politics, and may well determine Japan's course in the 1990s. The voters have the power to do this now that the LDP's long stable rule is beginning to totter and politics are in a state of flux.

Worth noting is the fact that 12 candidates are from Rengo, the Japan Private Sector Trade Union Confederation, who are running in cooperation with opposition parties. Their success may lead to a future reorganization of the opposition parties.

*** Groups Form Within LDP To Clean Up Image**
41050084 Tokyo ASAHI SHIMBUN in Japanese
5 Apr 88 p 3—FOR OFFICIAL USE ONLY

[Text] Lately the fashion within the LDP is to form groups whose purpose is to cleanse the political world; the older and younger generation as well as former Diet

members all have jumped aboard. New groups crossing factional lines have emerged, one after another, inside an LDP that is feeling the pressure of political distrust exacerbated by the Recruit scandal. This movement certainly indicates the intention to spontaneously feel its way toward political reform at a time when all factional leaders are immobilized by their involvement in a scandal caused by receiving unlisted stock. However, some view the trend with a cold eye, as exemplified by the following statement: "It could be an attempt to create an alibi to demonstrate their own cleanliness in order to impress the voters," (a veteran Diet member). This article is an attempt to examine backstage scenes in the newly created groups, centering on the "Heisei Group" formed on 4 April.

The Sense of Crisis

This scene was from the general meeting that established the "Heisei Group" at Constitution Hall near the Diet shortly after 4 pm on 4 April. The meeting began with a speech by Mr Shoichi Ide of the Komoto faction: "The LDP is a party of wide breadth. Now is the time for various voices to speak up."

Following Mr Katsuhiko Shirakawa's (Miyazawa faction) progress report, Mr Yoshio Yatsu (Abe faction) read the prospectus. Interspersed among dovish expressions such as "if political distrust goes beyond this point, communism, extreme-left terrorism, or ultranationalism may take advantage of us," or "highly evaluating the spirit of the Japanese Constitution....," there also were heard expressions of determination suitable to today's conditions: "We aim at political reform with high ethical awareness and with a spirit of serving the people."

The origin of the "Heisei Group" goes back to the fall of 1986. This was the time when various problems, including the lifting of the defense budget ceiling set at 1 percent of the gross national product (GNP) and the National Secrecy Law (Spying Prevention Law), all surfaced in the afterglow of the LDP having secured 300 seats. In response to the formation of the Group for the Study of Basic National Problems (Shizuka Kamei, chairman) rallying young hawkish members of the LDP and their subsequent activities, Mr Shirakawa and others who felt a sense of crisis planned the formation of a group that would gather members known to hold dovish views. Since the Recruit scandal unfolded while more than a dozen preparatory meetings were held, "political reform easily understood" was adopted as one of the plans of action.

Initially "The Japan Liberals' Organization" and "Liberal Seibun (Aspiration) Group—Liberal Diet Members' Federation" were popular names proposed for the group. However, these names were not adopted because it was thought that if abbreviated as "Ri-Federation" [ri remmei], the name might be mistaken as the "Ri" in Recruit [rikruuto].

Speculations

The table below lists recently formed groups advocating "political cleansing" among active and former LDP Diet members. The "Utopia Study Group" centers around

newly elected members, the "Diet Members' Group for the Promotion of Political Cleansing" has gathered those elected 2-5 times, and the "Federation for Political Cleansing" consists of suprafactional former Diet members.

Groups Recently Formed Inside the LDP To Seek Political Cleansing

Name	Date established	Representative	Number
Utopia Political Study Group	8/9/88	Masayoshi Takemura (Abe faction)	20
Group for the Execution of Ethical Codes in Politics	12/16/88	Hajime Fukuda (no factional affiliation)	233
Diet Members' Group To Think Out Political Reform	2/16/89	Shinya Totsuka (Takeshita faction) Shizuo Sato (Nakasone faction)	40
Diet Members' Group for the Promotion of Political Cleansing	3/15/89	Shozo Harada (Miyazawa faction)	16
Federation of Political Cleansing	3/23/89	Mitsuo Setoyama (formerly of Abe faction)	130 transfactional ex-members of Diet
Heisei Group	4/4/89	Hajime Morita (Miyazawa faction)	41

Common to all these groups is a sense of crisis for an LDP rocked by suspicion resulting from the Recruit scandal. Voices of anger were vented by members who joined the "Heisei Group": "Dissatisfaction is swirling among younger LDP Diet members concerned about how they can fight an election under the present circumstances" and "LDP leaders are insensitive to popular feelings."

Speculation is inherent in any group formed in Nagatacho [Japanese Capitol Hill], where "there is no meeting without an ulterior purpose," (a leader of the Takeshita faction). It is said that leaders of the Takeshita faction who are inclined to believe that "it is inevitable that Nakasone will receive a legal summons" played a role in rounding up members for the "Diet Members' Group for the Promotion of Political Cleansing." This rumor made the Nakasone faction nervous. Members of the Nakasone faction suspected that the new groups "real aim might be to facilitate Nakasone's testimony," and attended all three meetings held so far to assure that the group would not proclaim an "acceptance of a [Nakasone] summons." Some in the Nakasone faction say that the group "still needs surveillance."

Impatience

Some regard this group formation boom by the younger members to be analogous to the "policy study group" boom at the time of the Tanaka and Miki cabinets. One example was the establishment of "Seirankai" by a hawkish group led by the late Ichiro Nakagawa opposing the normalization of Japan-China relations during the era of the Tanaka cabinet. Another example was the "Research Institute of Political Engineering" established by a dovish group led by Yohei Kono following the

resignation of the Tanaka cabinet due to financial scandal. This group was the forerunner of the New Liberal Club.

The founding members of the "Heisei Group" emphasize the sense of crisis: "Recent LDP meetings are limited to factional or interest group [zoku] gatherings. Our plan is to establish a group that aims at giving careful consideration to the future of Japan," (Mr Jiro Kawasaki, Miyazawa faction). "The aim of reconstructing the party has to be clearly stated," (Mr Seiichiro Murakami, Komoto faction).

While known to be dovish, the nature of "Heisei Group" members is somewhat compromised by their eagerness for numbers: "I am for the Spying Prevention Law. Some members are for constitutional revision [for rearming]," (Iwao Kudo, Komoto faction). Mr Hajime Morita (Miyazawa faction), representative for the "Heisei Group" expressly visited Prime Minister Takeshita at his official residence on 4 April prior to the establishment of the group. Mr Morita received strange words of encouragement from the prime minister—"since you are not young anymore, do your best"—denoting the lack of punch in their new action.

Some among younger Diet members view the move coldly: "It is questionable to resort to public relations effects to suggest that they are not tainted; rather, one should demand the general resignation of all Recruit-tainted leaders."

One Diet member, a founding member of the New Liberal Club, appeared to be impatient: "We abandoned the high ground of belonging to the party in power in

FBIS-EAS-89-140-S

24 July 1989

83

order to promote reform. Upon reflection, our actions were immature. No such pathos is to be found among today's young people."

* LDP Dietmen Interviewed on Political Reform

* Kosuke Hori

41050113 Tokyo YOMIURI SHIMBUN in Japanese
20 May 89 p 2—FOR OFFICIAL USE ONLY

[Interview with Kosuke Hori, House of Representatives; interviewer not identified; date and place not given]

[Text] Profile: Kosuke Hori. House of Representatives, Takeshita faction. Graduated from Keio University's law School. Worked for Nippon Seiko. Following the death of Shigeru Hori, he retired from the company and in October 1979 ran for and was elected to the upper house. Having served as chairman of the party's Agriculture, Forestry, and Fisheries Bureau and as parliamentary vice minister of agriculture, forestry, and fisheries, he has consistently remained in the agricultural administration area. Currently, he is chairman of the party's Agriculture and Forestry Committee. For 5 years while at Nippon Seiko he served as president of the company's French subsidiary and therefore, has international experience. He has been elected to the House of Representatives four times. He is 54 years old.

[YOMIURI SHIMBUN] How do you view the current criticism of the LDP?

Hori: In the cities criticism stems from unhappiness with the consumption tax, in the rural communities from agricultural problems, and overall because of the Recruit scandal. These problems are having multiple effects and are giving rise to misunderstandings.

[YOMIURI SHIMBUN] What problems are in need of urgent political reform?

Hori: During discussions with U.S. Congressmen, when Japanese Dietmen are asked questions about "How Japan evaluates perestroika?" or "What Japan's views on the unification of the EC are?" they keenly feel their lack of adequate preparation. In order to be able to respond to such questions it is necessary to study in the library on Saturdays and Sundays. But politicians who do this, reduce their chances for reelection. If Japan doesn't do something about this, it will become an egocentric country.

[YOMIURI SHIMBUN] How about the factions?

Hori: Factions are inevitable because of today's medium size electoral districts. Given the current electoral system, factions would emerge even if the Socialists, for example, took power. The meaning of what Ito (chairman of the Executive Council) is saying is that "it isn't good to show too much factionalism in daily Diet operations. The party should be on center stage." In some respects this is being realized. I am chairman of the Agricultural and Forestry Committee, and it is not

factionalized. Thus, in formulating policy it might be possible to do away with factions. A complete dissolution of the factions, however, is not possible except in a small electoral district system.

[YOMIURI SHIMBUN] The Keiseikai (Takeshita faction) is said to be more unified than other factions. What do you think?

Hori: I don't know about the other factions, but in the Keiseikai many politicians are from outside government only a few have bureaucratic backgrounds. Relations between people are good and things are comfortable, we see ourselves as simple people.

[YOMIURI SHIMBUN] What do you think of a generational change as a way to reform politics?

Hori: Normally, it is necessary to introduce young blood. In a stable political world, however, I think that experience is considered to be very important. If we were a company, experience would be important for determining how to advance Japan and its 120 million people. I have studied diligently for 10 years, but I have yet to gain that kind of experience.

[YOMIURI SHIMBUN] What expectations do you have for the next party president?

Hori: With today's politics, it is impossible to expect that people will follow a candidate simply because he is clean. This is an aspect of today's politics that should be reformed. Money is necessary for politics, but the relation between money and politics is delicate. I think the reason why my father (Shigeru Hori) did not try to become party president is because he knew the closeness of the relation between politics and money. If you are managing a company it is good to spend less, even just a little less, but in politics fate has it that you must work as hard as possible to make many friends.

* Koji Kakizawa

41050113 Tokyo YOMIURI SHIMBUN in Japanese
21 May 89 p 2—FOR OFFICIAL USE ONLY

[Interview with Koji Kakizawa; interviewer not identified; date and place not given]

[Text] Profile: Koji Kakizawa, from the Finance Ministry, Nakasone faction. After working in the Miki cabinet as the private secretary to Chief Cabinet Secretary Ichitaro Ide, he ran and was elected as a New Liberal Club candidate in the 1977 upper house election. He switched to the lower house, withdrew from the New Liberal Club, and after the 1983 general election, entered the LDP [Liberal Democratic Party]. Fluent in English and French, he is also a talented writer who is the author of eight volumes. His most recent book is "A Proposal for Urban Japan." An urban politician, he is a child of Edo. He is fond of Kouta song and Kiyomoto (traditional Edo culture). He is currently, the chairman of the party's Foreign Affairs Committee. He represents Tokyo's sixth ward. He is 55 years old.

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FBIS-EAS-89-140-S
24 July 1989

84

[YOMIURI SHIMBUN] How do you view the spread of distrust in politics that has occurred in response to the Recruit scandal?

Kakizawa: Today as we enter the 100th year since the establishment of the Diet, the political corruption that has engulfed not only the ruling party but also the opposition, shakes the foundations of parliamentary democracy. The situation is more serious than during the Lockheed scandal. If only those individuals who received stocks from Recruit were to take responsibility it would not bring an end to this state of affairs. There is a structural problem, and therefore, unless we are resolved to spill some blood in order to introduce bold and creative reforms in parliamentary politics, we will simply tread over the same ground.

[YOMIURI SHIMBUN] The LDP's political reform committee has settled on an outline for political reform. Any comments?

Kakizawa: I am a member of the political reform committee as well as a member of the party's Heisei group, a group of young, mid-level members (Hahime Morita, chairman). I have stared the problem full in the face and feel that we cannot really fight it with such short-term actions as the punishment of those associated with suspicious activities involving Recruit or other specific remedies.

[YOMIURI SHIMBUN] Concretely speaking, what kind of reforms are necessary?

Kakizawa: I see a radical change from "back room politics" to "public politics" as a major point in need of reform. Certainly politics requires huge sums of money and this does not always agree with public awareness of ethics. It is essential that an end be brought to the close relationship between contributors and politicians.

[YOMIURI SHIMBUN] That will lead to open politics?

Kakizawa: That's right. Although there is currently discussion about the dissolution of the factions, recent LDP policy debates as well as decisions about personnel and cabinet members have been decided by a group of leaders within the factions and these decisions have been pressed on those below. By avoiding public debate, they are trying to immobilize the young members within the party. Principles leading to more open debate must be adopted.

[YOMIURI SHIMBUN] How about the resignation of Dietmen associated with Recruit?

Kakizawa: Asking a Dietman to remove his badge of office is a strong request to make of an elected official. It is more reasonable to ask the public about their trust in Diet members since we all have shouldered the burden of politics until now. If you analyze the proposal made by Ito (chairman of the Executive Council) this is what it suggests. It is the voters who make the final decision about each politician's political activities.

[YOMIURI SHIMBUN] How about the medium to long-term reform of the system?

Kakizawa: That points to the reevaluation of the medium-size electoral districts and the investigation into a small-size electoral district system that has been going on for years. The small electoral district system makes the exchange of political power possible and makes politics a more active vocation. There also needs to be a reduction in the number of Dietmen. In the House of Representatives there is one representative for each 300,000 people so there are about 400 members. In the House of Councillors there are 2 representatives from each province plus Hokkaido, Tokyo, and Osaka making a total of 94 members. If this system is simplified, top quality politics can be a goal.

[YOMIURI SHIMBUN] Frankly speaking, what kind of person do you anticipate will become the next party presidential candidate?

Kakizawa: The first criterion I have is that I would like to see it be someone who is determined to reform politics. There should be a general meeting for the Diet members of both houses to decide the right kind of person through extensive debate. If several candidates emerge through this process, the party's four executive leaders can reconcile the matter.

* Yuya Niwa

41050113 Tokyo YOMIURI SHIMBUN in Japanese
22 May 89 p 2—FOR OFFICIAL USE ONLY

[Interview with Yuya Niwa; interviewer not identified; date and place not given]

[Excerpts] Profile: Yuya Niwa, Miyazawa faction, inherited his father's political support base. Entered politics as a reporter for YOMIURI SHIMBUN. Served as the chairman of the Social Welfare and Labor Committee and as parliamentary vice minister of welfare. From the time of his first election, he has consistently remained in the social welfare and labor fields. Currently he is the chairman of the Social Welfare Committee. He is well versed on problems with pensions, and like Ryutaro Hasimoto, the deputy secretary general, is an influential member in the Social Welfare and Labor interest groups. He contributed to making 4 May a holiday. He has been elected to the House of Representatives four times. He is 45 years old.

[YOMIURI SHIMBUN] How do you see this critical situation?

Niwa: My electoral district is in the countryside of Ibaraki Prefecture. Compared with the cities, people are more tolerant of this kind of scandal. Nevertheless, with things having reached this point, people are reacting in a more harsh manner in their evaluations.

[YOMIURI SHIMBUN] The party is less critical....

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FBIS-EAS-89-140-S
24 July 1989

85

Niwa: The problem is that perceptions of the current situation within the party are divided. Symbolic of this is the fact that the opinions of two of the four party executives—Ito, chairman of the Executive Council and Watanabe, chairman of the Policy Affairs Research Council, are at opposite poles. The chairman of the Executive Council believes that a key issue is to come up with a plan to retain existing leaders. There are opposing opinions as to whether attention should be paid to this point while party reform is carried out. As things stand, no matter who replaces Ito, the people will not be satisfied and the party's right to rule will probably collapse.

[YOMIURI SHIMBUN] Do you support Ito's way of thinking?

Niwa: Yes, but not with the same certainty as Ito. I've been in politics for about 10 years, but truthfully speaking, I am reflecting upon whether or not I can really say I am clean. At the party convention when the author, Ayako Sono, said "A politician must be willing to die for the nation," I felt like I had been hit by a hammer.

[YOMIURI SHIMBUN] What is the reason for that?

Niwa: A politician's greatest anxiety concerns elections. Although one should not use money or gifts to get people's support, in a sense it is impossible to stop. The argument that unless you continue to do these things you cannot survive is a strong one and remains in the forefront. Moreover, things are set up so that after the election, those who take care of the finances of younger generation Dietmen will be taken care of.

[YOMIURI SHIMBUN] What policy would solve this problem?

Niwa: I think it is a matter of each politician's good sense and mental attitude. The question is how to get voters to support such a position. Certainly money is necessary, but it is not an absolute essential. Those who win elections are not necessarily those who lavishly spend money. In Ibaraki Prefecture in a supraparty decision the Diet members agreed to dispense with empty formalities. It appears it is necessary to do this.

[YOMIURI SHIMBUN] What do you think of problems inherent in the factions?

Niwa: There are more than 300 Diet members, so unless there are factions, things won't get finished. The goal should be to dissolve factions, although they are not at all bad. I am chairman of the party's Social Welfare Committee. The Miyazawa faction really tried to secure this post. This is a post I got after persistent competition with other factions. I don't think factions will soon disappear.

[YOMIURI SHIMBUN] How should those politicians who were connected with Recruit be made to take responsibility?

Niwa: Resigning from public office is a minimum. I am not in a position to say take off your badge, but because

it has become such a loud affair, I think this should be a first step. As to political reform, there should be a correction in the fixed number of seats. My electoral district will lose one seat, but that's inevitable. [passage omitted] I am not happy that the LDP finds itself in this current situation. Dissolving the Diet and inviting an election is the only answer. This will serve as the best way to take responsibility and will, I think, it will be a refreshing reaction to the situation.

* Coalition Government Seen as Economic Disaster

41050090 Tokyo CHUO KORON in Japanese
May 89 pp 58-59—FOR OFFICIAL USE ONLY

[Article by Kotaro Tawara: "Coalition Government—A Threat to National Life"]

[Text] The Recruit scandal continues to spread, and, at this time, no end is in sight. This Recruit affair reminds me of a newly rich individual, who, knowing nothing about the customs and etiquette of being the "tanima-chi" [sponsor], goes around backstage, visiting sumo wrestlers of both east and west teams and scattering gratuities everywhere he goes. At best, this behavior strikes me as dumb rather than scandalous. Even if it is dumb, however, there is a big difference in giving gratuities to a sumo wrestler and to a sumo umpire, as the latter is in a position to manipulate the outcome of a match. Although I do not object to the latter being treated as "serious," I do not think that the former has enough substance to be considered so "serious." Journalists and opposition parties alike are making no distinction between these two in attacking the Recruit problem, and all that I can say in this connection is that such behavior, in principle, is not unlike the questionable activities of those who were passing out bribery in the form of Recruit stocks and money.

Although I have not regarded the Recruit issue as important enough to create political chaos for over 6 months, still political upheaval is upheaval and political chaos is chaos. If no action is taken to deal with it, the Liberal Democratic Party is certain to lose in the House of Councillors election this summer. If this situation continues, Prime Minister Takeshita will certainly not allow the House of Representatives election to take place, for a double dosage of defeat would be suicidal for the party. However, no one can deny the possibility of the Liberal Democratic Party losing its house majority by a large margin in the next general election which will take place either at the end of this year or next spring.

Should this happen, it does not seem likely that both the Komeito [Clean Government Party] and Democratic Socialist Party, or one of them, might form a coalition government with the Liberal Democratic Party. As a matter of fact, the Komeito and Democratic Socialist Party are taking advantage of the Recruit problem and conspiring with the Socialist Party to drive the Liberal Democratic Party out of power. Since these three opposition parties are certain to work together in both the

FBIS-EAS-89-140-S
24 July 1989

86

lower house and general elections, none of them will be likely to make a move toward forming a coalition government with the Liberal Democratic Party. Although there is a substantial gap in political ideology and policymaking among these three, not to mention the deep-rooted distrust held by the Komeito against the Socialist Party, formation of a coalition government by the Komeito, Democratic Socialist, and Socialist Parties, headed by Takako Doi, would be a proper course of action should the Liberal Democratic Party lose its lower house majority by a large margin.

Supposing that such a government is formed, can it rule the country effectively? There will be the question of whether the Communist Party should be invited to join, which will undoubtedly lead to a great deal of disagreement among the three parties. However, even if they should succeed in shutting out the Communist Party from cabinet level involvement, and even if they could shelve their many basic policy disagreements, involving diplomacy, defense, security, and education, and focus on the points for which they presented a common front when they were out-of-power parties, running the country still would not be any easier. First of all, regarding the introduction of the consumption tax, central to tax reform—the coalition government would have no alternative than to freeze action on this unpopular new tax. However, they will not be able to find a new revenue source to make up for lost revenue, for it is not possible to take back the already-implemented reductions in income tax and resident tax and to restore individual commodity tax. This will lead to huge government deficits and then to excessive issuance of "red-ink" bonds.

The Socialist, Komeito, and Democratic Socialist Parties may insist that, since tax collection is progressing well, the deficits will be taken care of by increased tax revenue collection. As long as the Liberal Democratic Party's policy in this area remains, things may go well, but this will not continue for long. Furthermore, since the Socialist, Komeito, and Democratic Socialist Parties have opposed the liberalization of agriculture, they will have to say "no" to the increased importation of rice, beef and oranges. Needless to say, liberalized distribution, a focal point of the current Japanese-U.S. frictions, especially with reference to reassessment of the current Large-Scale Retail Store Law, is entirely out of the question. If this should happen, the United States will invoke Super 301 of the trade law and lock out Japan's exports to the United States. This will result in a major panic in the export industry. The Japanese economy will decline rapidly, reducing talk about automatic tax revenue increases to mere nonsense.

In addition, the government will start throwing money away on welfare. If the government were to raise rice producers' prices substantially, it could not avoid reducing the prices consumers pay for fear it would violate its public commitment of many years. The civil service employees labor union would demand an outrageous pay-hike as well as the legalization of laziness under the

respectable name of "improvement of working conditions"; the pay raise and the reduced productivity would, doubtless, spread to the private sector, and all of this would trigger inflation.

Before this happens, the political instability would drive international currency exchange experts into speculation, causing the high yen rate to drop dramatically. Since all import prices would react to a sudden climb, inflation would also affect this area. If the primary operation is to be halted in steps in accordance with the government's commitment, the minute this plan becomes a matter of public knowledge, crude oil prices will rise, accelerating the pace of inflation. Realizing the downward trend of the yen, many businesses and individuals, alike, will convert their funds into dollars in order to prevent any loss. This also will drive inflation to higher levels.

My own feelings are that if a coalition government of Socialist, Komeito, and Democratic Socialist Parties would undertake to enforce the policies to which they have adhered through the years, inside of 6 months, stocks would fall; the value of the yen to that of the dollar would fall; inflation would increase by 20 percent; and the resulting huge government deficit of 10 trillion yen would, contrary to the boasts of zero deficit bond issuance, force the country to face an explosion of "red-ink bonds" in the second fiscal year of Heisei. Am I correct in saying that, as a result of all these factors, people's economic lives would be driven to the brink of disaster?

If the Socialist, Komeito, and Democratic Socialist Parties say that this scenario is nothing but a lie, then, once they have formed a government, they must inform the public regarding what they intend to do with respect to the domestic and international problems. This would be the least of the responsibilities which these parties, after long years of shouting "down with the LDP government," should acknowledge and deal with.

YOMIURI on Importance of Political Reform
OW2706003189 Tokyo THE DAILY YOMIURI
in English 25 Jun 89 p 6—FOR OFFICIAL USE
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[YOMIURI SHIMBUN 24 June Editorial: "Reform on the Back Burner"]

[Text] The Liberal Democratic Party's Reform Promotion Headquarters has been inaugurated. Its chairman, Masayoshi Ito, declared, "There will be no tomorrow for the LDP if we fail in this (materializing political reform)"

But since the Tokyo District Public Prosecutor's Office completed its investigation into the Recruit scandal, the enthusiasm for political reform has been rapidly cooling down.

Although the LDP submitted two reform bills to the latest Diet session as a first step toward the reform, it has

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FBIS-EAS-89-140-S
24 July 1989

87

postponed deliberations on the bills until the next Diet session. And a bill that would force Diet members and other politicians to disclose their financial assets was not even presented to the Diet.

We urge the new headquarters to encourage members of the ruling party to reinforce their determination to carry out the reforms.

It may be difficult to carry out an ideal reform all at once, but the LDP must at least put into practice the political reform plan that the party worked out recently.

Another question that must be addressed is why young LDP Diet members are silent on the issue of political reform.

Some of them opposed Sosuke Uno as party president saying, "We have never heard anything from Mr. Uno's mouth about political reforms." But since that time they have been silent and this seems irresponsible.

The political reform plan stresses that politicians' contributions to constituents' weddings and funerals should be strictly regulated in an effort to save political funds. The young Dietmen should lead the political reform movement by carrying out such recommendations.

Other problematical issues now being debated include the fact that Cabinet members who announced they were leaving their factions are still attending faction functions, and a fund-raising party that the LDP faction formerly led by former Prime Minister Yasuhiro Nakasone is scheduled to hold in September.

Negative aspects of the factions should be eliminated and some rules made against Cabinet members' participation in factional affairs.

Both Prime Minister Uno and party Secretary General Ryutaro Hashimoto are criticizing the Nakasone faction party.

The Nakasone faction leaders, however, say they will host a party without violating the political reform plan.

A model political fund-raising party should be attempted. In such a party, small amounts of money would be collected from a wide variety of sources and the names of all corporations and individuals who buy tickets—and how many each bought—would be made public.

We should not forget that Diet reform itself is a very important part of political reform. The Diet should again become a forum to discuss policies. Such debate is essential if Japan is to make suitable responses to rapidly changing domestic and international situations.

Failure of reform would certainly end the LDP's hopes of seeing the sun rise tomorrow. Worse, there may be no tomorrow for Japan either.

*** Former Adviser Urges Fresh Political Start**
41050089 Tokyo GENDAI in Japanese
May 89 pp 94-98—FOR OFFICIAL USE ONLY

[Article by Masao Kunihiro, professor, Tokyo International University]

[Text]A Trilateral Structure Rotting From the Roots

In thinking about the recently revealed corruption of the Liberal Democratic Party (LDP), I find myself resorting to biochemical imagery—images of cell dissolution, for example, of decomposition and decay.

At the outset, however, let me state emphatically that such corruption is not limited to the LDP. Nor is it limited to politics as such. Every aspect of Japanese society exhibits a fin de siècle state of decay, and gives off the smell of decay. This smell of decay appears to be only now turning into the putrid odor of death.

While at first glance the economy seems to be running smoothly, nevertheless the evils of the money cult continue to root themselves ever more deeply into the social fabric. In education, students' college entrance examination scores are unfairly inflated with casual ease. The religious world is so racked by feuding that it would make the Buddha himself cry.

The corruption of the LDP is located in the middle of this general trend. The problem is not such that it can be solved by sentencing a few people caught with their hands in the cookie jar; it goes much deeper than that.

A light essay written by Kamo no Chomei, "Hojoki" contains the following passage:

"The old capital lay in ruins and the new one was not yet established, and people were as unsettled as the drifting clouds."

In short, the old order, the old system and its values, was in ruins, and a new system had not yet been born, leaving everyone at a loss as to what to do.

It is just such a period of uncertainty in which Japan now finds itself. The scandalousness of the ruling LDP is simply abominable; it leaves one speechless.

Regular changes of the party in power are by definition indispensable to parliamentary democracy. On this point, it must be said that Japan's parliamentary democracy is an exception even among exceptions. A lack of such regular changes is the primary cause of corruption.

Nor is that all. Almost 50 percent of the LDP's lower house members are the second or even third generation in succession to hold such positions. Given this fact, there is no reason to feel smug about a political system like that of North Korea, which, while espousing communism, has in fact a family dynasty in which power is monopolized by Kim Il-song and his son, Kim Chong-il. Little dynasties of this sort abound in every corner of Japan under the tutelage of LDP representatives. While

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FBIS-EAS-89-140-S
24 July 1989

88

such a political system may be appropriate for feudal lords or the aristocratic councilors of an even earlier age, that so many members of the current Diet are descendants of former Diet members is scandalous.

A curious trilateral structure, consisting of the LDP, the bureaucracy and big business, has arisen from the loss of the possibility of regular changes of the party in power and the unchecked reign of political nepotism. The bureaucrats have come to the dance in attendance on the LDP like ladies in waiting, and big business also supports the LDP.

This trilateral structure has expanded rapidly and reproduced itself, encompassing the mass media and co-opting the intellectuals, while the media in turn sing its praises. Under the circumstances, it is not surprising that the political life of the nation has lost its vitality.

No More Dirty Tricks

At present, Japanese politics is becoming fossilized by the biochemical decomposition of the triumvirate. The plight of the LDP, which is the heart of the system, is symbolized by three events: The Recruit scandal, the introduction of a new consumption tax, and the rebellion of the farmers.

As for the Recruit scandal, it can only be said to be a flower of evil destined to blossom in the midst of the decaying triumvirate of politicians, bureaucrats, and businessmen. It is not necessary to say more about it here.

With the introduction of the consumption tax the LDP politicians' ignorance of history becomes crystal clear. It is best to examine the past for the causes of the major revolutions we have witnessed so far.

The impetus for the Magna Carta, which was the beginning of parliamentary government in England, the founding of the United States, the French Revolution—all these revolutions or reforms were basically caused by taxation problems. Dissatisfaction—a feeling that the methods by which taxes were collected or the uses to which tax revenues were put were unjust—started these nations down the path toward revolution.

The LDP's awareness of this point has been very limited. Statesmen of every period in history should approach the problem of taxes as gingerly as if they were walking on thin ice.

Furthermore, the manner in which the tax was introduced was itself a calculated utilization of the emperor's death. If I were a believer in the emperor system, I would be outraged at the mere suggestion of such an action. The introduction of this tax through the calculated utilization of a person's death and the trampling underfoot of the vast majority of the people's wishes is more than one can bear.

In foreign diplomacy as well, the politicians have simply clasped their hands together in an ingratiating manner

and made the rounds of their fellow nations like a salesman taking orders from his employer's customers. They have taken no part whatsoever in decisions reached even at major international conferences, but have simply doled out the amount of money asked of them. One cannot rule out the possibility that the introduction of this consumption tax is intended to raise revenue for these activities.

Then there is the farmers' rebellion. The elections in Fukuoka and Chiba Prefectures, for example, clearly indicate a distancing from the LDP on the part of the farmers that is starting to turn into a widening chasm.

This distancing results from the fastidiousness of the farmers. No matter how mechanized farm labor becomes, the fact remains that farming is still a matter of bending over and crawling along the ground, of working by the sweat of one's brow and all the while worrying about the weather, and even then never being sure how the crop will turn out. Heretofore, victimized though they were by capricious agricultural policies, these farmers nevertheless meekly followed policy dictates.

It is only natural that the farmers are fed up, knowing as they do now that not only have members of the Diet, who decide farm policy, reaped advantages without soiling their hands, so to speak, but have done so without even taking their hands out of their pockets.

It would be a big mistake to dismiss farmers' criticisms of the LDP as stemming from discontent with the liberalization of agricultural imports.

How Can the LDP Remain So Insensitive?

The LDP has been able to retain power until now not because it has led society in accordance with its own ideals, but because it has gone around, hat in hand, making concessions to each and every demand. These contradictory attempts to satisfy conflicting demands have finally blown apart and forced the LDP into a corner.

With this phenomenon in mind, the insensitivity of the LDP leadership cannot but make one feel impatient. It must be said that it is this insensitivity that has brought the LDP political system, whose way of doing business functioned somehow despite criticism so far, to its last gasp. Having absolutely no idea what the people are thinking, the party's leadership kept its eyes turned inward and spoke a language understood only by those within the power triumvirate. There was no attempt to speak to the people at large.

If the LDP's leaders were not so insensitive, they would have been greatly troubled by the prospect of introducing a consumption tax and deciding on a policy to abandon agriculture at this time. However, it seems that LDP headquarters does not understand the seriousness of the situation. This insensitivity is itself the greatest sign of decay.

FBIS-EAS-89-140-S
24 July 1989

89

The LDP leaders do not understand that their political lives are at stake. For them to remain so insensitive at a time when the silent rage of the people is slowly creeping up on them and coming into the open leaves one dumfounded.

In any age, slow-witted organisms are fated to be selected out. It is said that if a frog is placed in hot water it will jump out and escape, but if it is placed in cool water that is then slowly heated over low heat, the frog will not notice that the water is slowly heating up and will be boiled alive. The LDP is like a frog that does not realize it is being boiled alive.

Corruption in the LDP is widespread; and it can by no means be rooted out by blaming one or two individuals. The LDP's monopoly on power has now lasted 33 years. It is not a question of the LDP being fundamentally good or bad; it is simply that a political monopoly which has continued for too long is now coming apart at the seams.

In this sense, it was perhaps a misfortune for Takeshita that he became prime minister at this time. It would have been better to have made a fresh political start before things came to this point, by splitting the LDP in two, effecting a reform of tectonic dimensions on the political landscape, and reforming the party along more liberal lines.

With the exception of Ohira, successive prime ministers until now—Tanaka, Miki, and Fukuda—have all had experience as opposition figures within the party. Even Nakasone was once an opposition figure in the LDP.

It is even said that politicians within the ruling party who have had no experience of being outside the mainstream factions are not really full-fledged politicians. Yet the LDP today consists solely of politicians who have never had to pay their political dues. For their entire careers they have been protectively *raffined* and have stayed within the safe confines of the *mainstream* of the ruling party. This has become a disadvantage; they have lost the opportunity to perfect their skills as politicians.

Upper House Elections: A New Start?

The LDP was better off when it had mainstream and anti-mainstream factions. Since the Nakasone cabinet the LDP has not had even that. The party has devolved into a supra-mainstream organization reminiscent of the Imperial Rule Assistance Association. Even the appearance of regular changes of the party in power has disappeared. With the loss now of those anti-mainstream factions which might just as well have been called an internal opposition within the ruling party, the LDP has as good as lost the mirror by which it could objectively look at itself. It can no longer even distinguish its virtues from its vices.

The LDP took 304 seats in the last general election. This victory was perhaps the beginning of the party's troubles, the first step on the road to ruin.

I worked as a brain truster for deceased former Prime Minister Miki. I was happy when Miki was chosen prime minister. At the same time, I thought "What a shame," and I publicly said as much. By that I meant that it was unfortunate that at the time only Miki was around to break the LDP's hold on power and bring about the possibility of regular changes of the party in power. It is ironic that the formation of that most liberal Miki cabinet actually prolonged the period of one-party rule. Events now offer the first chance since that time to create the conditions for such regular changes of the party in power. The LDP's monopoly on power must at all costs be broken, even if this means the LDP must be split into two conservative parties.

The essay of "Hojoki" by Kamo no Chomei, from which I quoted earlier, was written at a time that prefigured the end of the Heian Period. There is a chant from a Noh play, "Sotoba Komachi," written at the end of the Muromachi Period, which contains the following passage:

"The old gods are dead and the new gods are not yet born. Born into such a dream world, what are we to think is real?"

The end of an era is like the falling of a ripe persimmon. That which falls cannot be stopped from falling. Nevertheless, at the same moment a new sprout is certain to appear somewhere. The time is ripe. I am eager to discern from whence the wave of the future will come, who will lead it and what will start it. I want to see what comes next.

The House of Councillors election in July may be the one seed that will give birth to a successor to the end of one-party rule by the LDP.

Uno Offers To Implement New Income Tax Cut
OW3006153589 Tokyo JIJI in English 1340 GMT
30 Jun 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, June 30 (JIJI PRESS)—Prime Minister Sosuke Uno Friday offered to implement a new income tax cut estimated at 75 billion yen by raising the minimum taxable level on income earned by dependents on part-time jobs.

Their minimum taxable income will be increased to one million yen from the present 920,000 yen, retroactive to January this year, according to a plan shown by the prime minister at a meeting of the government's panel for smooth implementation of the new consumption tax.

The government will submit a revision bill to this effect during the next extraordinary session, Uno said.

The proposal was apparently aimed at appeasing taxpayers' strong dissatisfaction about the broad-based indirect tax.

FBIS-EAS-89-140-S
24 July 1989

90

The government will also consider increasing expenses for improving home care for bedridden old people and the handicapped, Uno said.

Asked by reporters about if the government will carry out an additional income tax cut other than the measure disclosed by Uno, Finance Minister Tatsuo Murayama noted the government is still continuing fiscal reconstruction efforts, adding no more tax reduction is under consideration.

Budget for FY90 Set To Grow by 3.5 Percent
OW2806014089 Tokyo ASAHI EVENING NEWS in English 26 Jun 89 p 1—FOR OFFICIAL USE ONLY

[Text] The Finance Ministry plans to set the growth of the national budget for fiscal 1990, starting on April next year, at about 3.5 percent or about Y [yen] 1,200 billion.

The defense budget and the official development assistance (ODA) budget, exceptions to the about 3.5-percent growth ceiling, are expected to increase by about 7 and 10 percent, respectively.

The ministry Saturday decided to ask Cabinet ministers to officially decide the ceiling of the budget draft at their meeting on July 11, prior to collecting initial budgetary appropriation requests from each government ministry and agency, by the end of August.

The likely 3.5-percent growth compares with the 2.76-percent increase in the budget for the current fiscal year and is the largest since fiscal 1982.

The defense budget grew this year by 6.1 percent and the ODA budget by 9.4 percent.

Government Pressure To Expand Imports Criticized

OW2906041889 Tokyo NIHON KEIZAI SHIMBUN in Japanese 23 Jun 89 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "To Call for Expanded Imports Is an Act of Putting the Cart Before the Horse"]

[Text] "I would like to ask you to expand imports. I would like to make this request, even if it means getting on my knees," so said the international trade and industry minister at a conference on expanding imports held on 21 June with staff officers of major general trading companies and manufacturers.

Imports by the nation's 313 major enterprises in 1988 accounted for 69 percent of the nation's total imports and 63 percent of the total imports of manufactured goods. Import growth of the 313 companies in 1988 was 31 percent, or about the same as the national import growth rate for the year. There is no doubt that if the imports of manufactured goods can be increased in 1989 at the same rate of 1988, it will contribute to the alleviation of frictions with foreign countries.

However, it is not desirable for the government to take the easy-going attitude of interfering in the activities of businesses merely because of outside pressures such as the threat imposed by Super 301.

The functions of the government are to help create an open and free market. If there are conditions for a free market, then the enterprises are bound to increase their imports. However, the reality is that there are many, many official obstacles which are impeding imports.

For instance, take beef as an example; import restraints on animal farm products remain as strict as ever. In the area of distribution, in addition to regulations on stores imposed by the Large Store Law, there are many such official restraints as business licenses and permits. Even in antimonopoly policies, there remain elements aimed at protecting businessmen and not necessarily giving priority to the interests of the consumers.

What the government must do first is to remove various obstacles which impede market mechanisms. If private enterprises are asked to increase their imports while these obstacles are left standing, we must say that the order is reversed.

The Japanese Government has so far asserted to foreign nations that Japan is a free and open market and that if price, quality, and delivery conditions are met, Japan will buy their products. However, if the Japanese Government puts pressure on the enterprises to increase their imports, the action itself is control which shows that the market is not so free and open as claimed.

Besides, if this nation's enterprises readjust their import plans, heeding government calls, and increase their imports against their will, how will the foreign countries respond? They will be happy with the reduction in the trade imbalance, but on the other hand they will think that this proves after all that Japanese enterprises have had a closed-door policy in importing goods from overseas.

When it is the government that should be reproached for its errors, it is possible that instead private enterprises will be mistaken as having committed unsavory acts.

If this is the case, that even an absurdity—if it comes from "above"—must be accepted, foreign nations might come to look upon Japan not as a nation of free economy but as a nation of state-controlled economy. This image will also be a minus to Japanese enterprises which are in the process of moving toward globalization.

AKAHATA Marks JCP Anniversary

OW1507105089 Tokyo JPS in English 0933 GMT 15 Jul 89

[Text] Tokyo July 15 JPS—July 15 marks the 67th anniversary of founding of the Japanese Communist Party [JCP]. AKAHATA on July 15 carried an editorial

FBIS-EAS-89-140-S
24 July 1989

91

entitled "The Party Defending Human Rights and Freedom—On the Occasion of 67th Anniversary of the Party". It says in part:

"The Japanese Communist Party can say with confidence that it is the party which has courageously maintained the position to defend and develop human rights, freedom and democracy during 67 years.

"The JCP was founded on July 15, 1922 carrying the banner of people's sovereignty and democracy, in the midst of despotic rule by the absolute tenno (emperor) system. With the draft party program, the JCP fought for overthrow of the emperor system, for people's sovereignty, universal suffrage of man and woman, freedom of publication, meeting and strike, and for other demands. The JCP fought against the war of aggression.

"Based on this tradition, the JCP has played an unparalleled pioneering role in the post-war struggle for human rights, freedom and democracy. When the Constitution of Japan was adopted, the JCP proposed a democratic draft of the constitution providing people's sovereignty, and the utmost efforts by Sanzo Nosaka and other JCP members of the Diet made the Constitution declare people's sovereignty.

"This position of the JCP is firmly based on scientific socialism. Scientific socialism aims at liberating working people and oppressed nations from capitalist exploitation and oppression and establishing a society in which human rights and freedom are truly respected, as the JCP program says, 'a society with truly equal and free relations between people'.

"This position of the party is put into shape by the manifesto on freedom and democracy, which declares that three freedoms, viz., freedom of existence, civil-political freedom and freedom of the nation will be defended and developed.

"It is natural for the JCP to have denounced the brutal armed crackdown in China. The Liberal Democratic Party and anti-communist opposition parties are utilizing the event in China for their anti-JCP demagoguery.

"The JCP is now resolutely struggling against such anti-communist attacks and striving for making known to the people the party's policy to defend human rights, freedom and democracy. An advance in the present election is the best way to celebrate the 67th anniversary of the party."

* Worker Shortage Changes Employment Situation

41060118 Tokyo NIHON KEIZAI SHIMBUN in Japanese 16, 17, 19, 20, 22 May 89—FOR OFFICIAL USE ONLY

[16 May 89 p 1]

[Text] As the current economic expansion enters its 30th month, the shortage of workers has become critical.

Construction projects are behind schedule and firms are crowding job placement offices in search of people. The influx of foreign labor has increased. Moreover, instances of mismatches between the labor supply and company needs—mismatches which cannot be dismissed as a phase of economic expansion—are also becoming more severe. This series examines the impact the current shortage of people may have on Japan's employment structure, at a time when attitudes toward work are themselves changing.

A School Not Built

The city of Ota, in Gumma Prefecture, is crowded with apartment complexes housing workers employed in home appliance factories and automobile plants. In April, some 400 students were scheduled to be transferred to the recently completed Asahi Junior High School, in an attempt to rectify a situation in which one-quarter of the students at the mammoth Higashi Junior High School attend classes in temporary classrooms. As of mid-May, however, neither the main building, the gymnasium nor the cooking facilities had been completed.

Last November, Ota's construction companies, in response to a request from the prefectural Board of Education, promised to have the school completed by the end of March of this year. However, the construction companies could not find enough workers to build the plywood molds for pouring the cement and the ferro-concrete structures. Electrical wiring work and work on the interior began only in early May. Asahi Junior High School opened the school year on the third and fourth floors of Higashi Junior High School; the two schools now share the same facilities.

Metropolitan Tokyo Hard Hit

The shortage of construction workers in the Metropolitan Tokyo area, while mainly the result of the rapid increase in home and office building construction attendant upon the economic expansion, has also been caused by a succession of such major construction projects as the new metropolitan government complex under construction in Shinjuku and the Tokyo waterfront development project on Tokyo Bay. With construction companies competing with each other for workers, daily wages, "normally about 20,000 yen, have risen as high as 50,000 yen," according to Keiichiro Itoh, who heads the Wages Department of the National Federation of Construction Workers' Unions. Moreover, these "migrant workers," who normally return to their homes in the country with the melting of the spring snow, have this year stayed on in Tokyo into May, thus creating a shortage of workers in the countryside even as they congregate in the capital.

Nor is the labor shortage limited to the construction industry. The service industries' demand for new workers this March is up 20.3 percent over last year at this time, a double-digit increase matched by a host of other

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FBIS-EAS-89-140-S
24 July 1989

92

industries as well—manufacturing up 18.8 percent; wholesale and retail stores and restaurants up 15.2 percent; transport and communications up 10.1 percent. At the same time, only 10.6 percent of advertised vacancies were filled—the lowest level for the month of March in 15 years. Distributors are screaming, "Our plans for opening new branch stores are not proceeding as we would like." In addition to the economic expansion now entering its 3d year, the continued restructuring of the Japanese economy has aggravated the employment shortage.

Every day from about 2 o'clock in the afternoon onward, the Public Job Placement Office in Iidabashi, Tokyo—the nation's largest—is crowded with company personnel administrators. "Perhaps because they've never come here before, there are those who haven't the faintest idea how to fill out a job advertisement," says Hiroshi Okubo, an Industrial Employment Information Officer.

"We need about 30 computer programmers, so I come to the job office every 3 months," says one recruiter from a computer company.

"I've been coming here since last October. Our firm is popular with students, so I thought we wouldn't be affected by the personnel shortage. But we've got a shortage of sales people that we just can't seem to make up," says another from an advertising agency.

"We're expanding our business into new areas and we want someone who can use a computer to manage inventory. As a rule, we've hired friends and family members in the past, but that's not enough anymore. So I came here for the first time in April," says a third from a chain of doll stores.

Local Governments Involved in Retraining Personnel

There have been some attempts to call in local governments to deal with the personnel shortage. Tochigi Prefecture, with a March opening-to-application ratio of 2.31-1, has appropriated 10 million yen this fiscal year for "getting and retraining personnel." In addition, at the end of this month Career Planning and Placement Directors from 20 universities in Tokyo will be invited to Tochigi and asked to consider steering students from Tochigi to jobs in the area. Some firms are dispatching employees to Hokkaido and the Tohoku region, where opening-to-application ratios are relatively low.

The end of a previous, 57-month long economic boom was also plagued by a shortage of workers to man the factories of the export industries. The opening-to-application ratio for high school and junior high school graduates exceeded six to one. At 2.05-1, the opening-to-application ratio for this spring's high school graduates topped the 2-to-1 mark for the first time in 12 years.

While this level is still low compared to the previous economic boom, "at that time there was an ample supply

of labor in the country and we were able to meet the demand by shifting the labor force," according to Kazuo Tamiya, a Planner in the Policy Planning and Research Department of the Ministry of Labor. "What's worrisome this time is that there is an absolute shortage of labor. Moreover, with the continuing shift of the Japanese economy toward computerization and services, the character of the labor shortage itself is different."

Estimates inside the Ministry of Labor predict a labor shortage exceeding 10 million workers if annual working hours are reduced to 1,800 hours by the year 2000 while maintaining an economic growth rate of 3-4 percent per year from now on. It appears we are now on the threshold of "an age of a shortage of people."

Some have even begun to fear that, with corporations forced by the labor shortage to move production overseas, we may see the hollowing out of industry.

[17 May 89 p 1]

[Text] "I wouldn't have gone to work for Ishikawajima-Harima Heavy Industries (IHI)," said Yoshiharu Matsuurs, 32, a systems engineer (SE) who went to work for Ishikawajima Systems Technologies (IST), in Kudanshita, Tokyo, in April.

Higher Income Preferred to Employment With Parent Company

Although IST is a fully owned systems engineering subsidiary set up by Ishikawajima at the end of last year, in fact its wage levels are 10 percent higher than those at Ishikawajima itself. "At the wages levels paid by IHI, which specializes in shipbuilding and heavy industry, it is doubtful that we can get qualified systems development people, who are in exceptionally heavy demand," said Hideji Asami, president of Ishikawajima. Competition for workers with expertise in information processing-related fields has become so intense that it has stood wage levels on their heads, with specialized subsidiaries such as IST paying higher wages than their parent companies.

The more companies arm themselves with computers, the greater their need to employ SE's and other software technicians. Continued advances in information processing and high technology have created entirely new occupations that are different from those industry had during the period of rapid economic growth in the 1960's. They have also accelerated a growing labor shortage.

CSK Corp., a major information processing company, concluding that getting and holding onto qualified personnel in the Metropolitan Tokyo area would be difficult, has embarked on a strategy of employing people in the countryside by relying on the geographical and kinship ties of its employees. The program of hiring and retaining new personnel by setting up local affiliates will begin at the earliest in June. CSK will provide those of its employees who wish to set up independent operations in

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FBIS-EAS-89-140-S
24 July 1989

93

the area with the knowledge necessary to get started; if necessary, it will also provide them with capital. It will support the new operations by lending personnel, capital, and personal computers.

Even Apprentices Soon Given Assignments

However, as the major firms move into the countryside, it has become progressively more difficult to find qualified software technicians. "We've got plenty of work, if we can just get the people," laments Toshio Tanimura, president of the information processing firm NJK. A shortage of workers is now the single biggest obstacle inhibiting commercial expansion of the fast-growing information processing-related fields.

"Even apprentices still in the process of learning the technology are soon given their assignments," says Manager Yoshiyuki Koide of Temporary Elder (a technical staff employment service based in Tokyo), half amazed at the voracious demand for workers. Training their own software specialists and service people would cost companies time they can ill afford, so they inundate placement agencies with their requests.

The Ministry of International Trade and Industry is pessimistically projecting a shortage of 965,000 software engineers by the year 2000. "Changes in the industrial structure and the composition of the population are the major reasons for the labor shortage," according to Yoshio Higuchi, an assistant professor at Keio University. "Despite a decrease of 2.3 million in the under 30 population compared to 15 years ago, demand has increased for specialists such as those who work with computers—specialists who cannot be trained quickly. The labor shortage is so serious just because workers cannot be retrained easily."

PR for Short Actual Working Hours

Changes in social structure and lifestyles have created a procession of new types of employment in such fields as distribution and the service-related industries, adding to the labor shortage. To meet the needs of working couples and the influx of women into the work force, one department store after another has extended its hours, staying open later at night. As the 5-day work week gradually takes hold, more people are doing their shopping on weekends. The stores, for their part, would like to increase overtime and holiday work, but have been unable to attract as many workers as they had thought. The part-time workers favored by department stores and supermarkets have tended to be housewives, who avoid working late hours at night and on weekends. A mismatch between the labor supply and the work hours and work days has emerged.

Last November, Tokyo's Tobu Department Store introduced a part-time system called "light-part-timer," a 3-hour shift from 4:30 to 7:30 in the afternoon, in an attempt to cover hours for which it is difficult to find workers due to a decrease in actual working hours. A move by distributors to introduce a 4-day work week in

the Yaohan Department Store in August is also part of the attempt to cope with the labor shortage. Regular employees will get 3 week days off in exchange for working weekends and other holidays when workers are usually in short supply.

The pattern of the current labor shortage is unlike that which plagued an earlier period of rapid economic growth, which was essentially a shortage of workers to man factories that simply produced things. The tilt toward computerization and an expanded service sector has created new jobs and new occupations and because every company around is making this shift at the same time the labor shortage has been aggravated considerably. Cautions Eto Toshio, a senior managing director at NEC Corporation: "Japanese companies are overcoming adverse conditions stemming from the sharp rise in the value of the yen and are pursuing growth amid expanding domestic demand by improving efficiency. However, the shortage of specialized technicians will probably be the limiting factor to that growth."

Worker shortage may very well be the Achilles heel of large-scale economic expansion.

[19 May 89 p 1]

[Text] "One as of now"—the phrase is spoken in hushed tones in the environs of Nagasaki Holland Village, the huge resort in Seiki town in Seiki County, Nagasaki Prefecture and winner of Nikkei's annual award in 1988. Holland Village has been popular throughout Japan ever since its opening 6 years ago, and in the Nagasaki area it was hoped that the resort would provide jobs for displaced shipyard workers and coal miners. That hope notwithstanding, up to now exactly one person from the structurally depressed industries of the Nagasaki area has been employed by Holland Village.

Not that Holland Village is turning down applicants. "People don't like the distances involved—we're an hour by car from both Nagasaki and Sasebo—so they don't come here to apply," admit representatives there. Here is a circumstance of a company needing workers and workers needing jobs located a distance of 40 kilometers from each other.

Keen Regional Attachments Another Obstacle

Since such mismatches occur within a single prefecture, it is not surprising that they should occur over much wider regions as well. As of 1 May of this year, the Japan National Railways Liquidation Promotion Corporation (headquartered in Tokyo and with Takaya Sugiura as its director) retained 2,689 unemployed people—the overwhelming majority of them in Hokkaido (1,376, or 51.2 percent of the total) and Kyushu (1,057 39.3 percent). Only 250 (9.3 percent) were in Honshu and 6 (0.2 percent) in Shikoku.

Hokkaido and Kyushu have traditionally had high unemployment rates. "All the remainder are people with strong attachments to their region. If they would just

FBIS-EAS-89-140-S
24 July 1989

94

come to Honshu, they would find work..." explains the management section of the Measures for Employment Division, with an air of helplessness.

In both these cases—Nagasaki and the Railways Liquidation Corporation—mismatch factors such as the age of the work force and the amount of wages cannot be overlooked. Job placement officers swear that, in Nagasaki Prefecture, employers want low-wage young people, while those looking for work are entirely middle-aged people in their forties, many of whom want high wages and this compounds the problem. In the case of the Railways Liquidation Corporation many of the displaced workers are in their thirties; moreover, the old Japan National Railways paid high wages, so many workers are not satisfied with the wage levels offered by local Hokkaido and Kyushu firms.

Employees Retraining Will Not Be Enough

Widening mismatches within companies themselves—a surplus of workers in one division, a shortage in another—are also not uncommon. "Including those of our employees we train and new employees we hire, by 1992 our information and communications division will have 5,000 essential personnel," says Hiroshi Saito, president of Nippon Steel Corporation. Last spring Nippon Steel established four information processing-related affiliates, including Tokyo-based Nippon Steel Information and Communications Systems, in an effort to earn 20 percent of its sales income from information and communication, on the one hand, and electronics, on the other. Yet sources explain that Nippon Steel will be unable to keep pace with growing demand simply by shifting workers from its information systems division.

On the other hand, a glance at the steel mills shows a large labor surplus will result from shaft furnace closings this year and next at such places as Murohan, Kamaishi, Hirohata, and Sakai. This is a typical case of intracompany mismatch: The information processing division is short of workers, while the iron and steel division has a surplus of workers. The company has plans to retrain 2,600 employees for new occupations in the electronics and information processing and communications divisions, but industry analysts are coolly skeptical that hard-boiled steelworkers can be retrained so easily.

Other steel companies such as NKK and Kobe Steel, Ltd., are also having the same problem. Similar difficulties confront not just the steel industry but also such structurally depressed industries as textiles, shipbuilding, and coal mining.

Unbalanced intracompany supply of and demand for workers is not limited to large, long-established industries. Fuji Xerox has instituted a program called the "My Way Plan" and has begun retraining blue collar workers as badly needed information systems technicians, but it will be difficult to eliminate the problem by this means alone.

The Changing Attitudes of the Young

Cases of an inability on the part of employers to keep up with the changing attitudes of workers have begun to surface in the cities. The increase in the number of mainly young people without permanent full-time jobs who make a living by working temporary or part-time jobs shows no signs of slackening.

According to a survey conducted last May by a certain employment information magazine, those who were neither students nor unemployed accounted for 15.7 percent of all part-time workers, up 3.7 percent over last year. According to the magazine, the actual number of such persons increased by about 30 percent in 1 year.

However, employers tend to prefer permanent or regular employment—a proposition unattractive to young people who do not want to be tied down.

The most progressive firms are trying to turn these changes of attitudes on the part of young workers to their own advantage and secure better employees. One example is Isetan, a major department store, which last year introduced the "Some-timer" system, in which store sales people themselves set the days and hours they will work. The system was so popular that over 1,100 applicants applied for 300 positions.

Numerous mismatches make the Japanese labor market tighter and in order for industry to surmount this problem, the creation of flexible employment systems responsive to the changing times is indispensable.

However, Ichiro Ueno, president of Noritasu Sangyo Junior College, warns: "Japanese companies, with their commitment to the lifetime employment system, are not very good at this sort of trick. Despite the efforts of from companies to try to respond to this problem, it will probably be quite some time before this attitude extends throughout the business world."

[20 May 89 p 4]

[Text] In Assembly Section 1 of Production Group 1 at Nissan Motor Co., Ltd.'s Oihama plant in Yokusuka, Kanagawa Prefecture, eight older workers with graying hair and six younger workers are busy assembling the automobiles that roll ceaselessly off the assembly line. In a world in which the maximum age at which a worker could keep up with the 3-meter per minute pace of the assembly line was thought to be 45, a veteran group of workers as old as 55 and with an average age of 50 manages the work with brisk ease.

Auxiliary Equipment and Extra Lighting

This is Nissan's "Power-Up Line," an experiment in improving the adaptability of older workers. By using auxiliary equipment to augment weaker body strength and installing extra lighting for poorer eyesight, Nissan is attempting to create a better work environment where middle-aged workers can work with ease. Young workers

work together with the older workers. "If the work place is set up properly, workers up to the age of 55 can maintain just as high a rate of work efficiency as young workers can," says Etsuya Noda, chief of Assembly Section 1. The goal is to extend that age to 60.

The generation employed in large numbers by firms in the sixties is now reaching 46-50 years of age, contributing greatly to the aging of the work force as a whole. With the continuing decline in the number of children, companies are competing with each other to hire and hold these younger workers. In any case it will be difficult to maintain production processes using only young workers. The utilization of middle-aged and older workers is a stratagem designed for the coming era of a shortage of younger workers.

Some companies are introducing "work sharing" systems targeted at company employees aged 60 and over, allowing them, for example, to freely choose the days they will work. Workers at Tokyo-based Traveland Travel Bureau, an affiliate of the Japan Travel Bureau, can, if they wish, freely choose between four different work schedules: Every other week, every other day, half the week (continuously), or half the month (also continuously).

While just those hours and workloads suitable for one person are common for half of all individual employees, work sharing has expanded the employment opportunities available to older workers. Although the wages are lower, the system is convenient for those who would like to continue to work but do not have the stamina to do so full time. This system allows the companies to kill two birds with one stone: They can both hire older workers and take up the slack caused by the shortage of younger workers.

According to the Ministry of Labor, at present there are 85.76 million people in the country aged 15-64. This segment of the population will peak at 87.17 million in 1995 and then decrease slightly every year to 81.1 million in 2020—6.07 million (or 7 percent) less than the peak figure and 4.66 million (5 percent) less than now. To exaggerate a bit, one could perhaps say that we face a "personnel famine" in the years ahead. "For the time being, the international competitiveness of the Japanese economy is unsurpassed. However, there is one decisive limiting factor—the shortage of younger workers," warns Professor Masumi Tsuda of Aoyama Gakuin University.

Expanding Reemployment Opportunities As Well

For this reason, Tokyo-based Yamazaki Construction Co., a public works construction firm, focused on the potential of women. This year the company began employing 30 women workers on construction sites, having them work even at jobs that are physically demanding for women, such as driving dump trucks. To attract women, the company utilized designer uniforms from the famous designer Junko Koshino. New employment trends are making their way into the staid, male-dominated public works construction industry, too.

"As the population ages, there is a relative shortage of younger workers. We intend to make up this shortage by using women. We want 30 percent of our construction workers to be women by the year 2001," insists Hiroshi Yamazaki, managing director and general manager of the Planning Office.

Yamato Transport Co., Ltd., employs about 600 women drivers for its home delivery and messenger service. It has also instituted a rehiring program for those women who have left the job because of marriage or the birth of a child, thus indicating the seriousness with which it takes women workers. The company accepts returnees to the work force even after lapses as long as 18 years and has extended job opportunities to middle-aged women, who have much time on their hands after their children have graduated from junior high school or high school.

Some Say Shortage Is More Apparent Than Real

There are vast differences between age groups and geographical regions as to how acutely the shortage of workers is felt. While young people are besieged by offers from each and every industry, the openings-compared-to-application ratio for older workers in their fifties and sixties remains low. "Japanese companies have traditionally been interested only in employing younger workers," explains Professor Tsuda. "The uncertainty that in the future they may not be able to get younger workers has made them anxious, and they are working hard to expand employment opportunities."

This spring, for the first time in 3 years, Nippon Steel began hiring skilled workers with just high school diplomas. Taking into consideration that 10 to 15 years from now about 10,000 skilled workers hired during the period 1955-60 are going to retire en masse, "We are hiring more workers than we need for the time being," says Yasuji Korematsu, general manager of the Labor Department. Uncertainty about the future has led to over employment, thus further exacerbating the perception of a worker shortage.

"The current worker shortage is more apparent than real," says Professor Haruo Shimada of Keio University; the labor shortage is most acute in Tokyo and its environs. "Movement of workers out of their home prefectures peaked in 1970 (and has been declining ever since). If this trend continues, there is a danger that there will be a surplus of middle-aged and older workers and of workers in the countryside. It's an extremely unbalanced situation." The present worker shortage may be a distortion born of the concentration of the Japanese employment structure on young people and men.

[22 May 89 p 3]

[Text] In a refrigerated warehouse in Tsukiji, Tokyo, two Chinese from Shanghai—one 30, the other 25—who are students at a Japanese language school work on a half-year contract. Smeared with fish guts, they work in the

FBIS-EAS-89-140-S
24 July 1989

96

-25° Centigrade warehouse 8 hours a day, 6 days a week, from Monday to Saturday.

Rapid Increase in Illegal Workers

Vocational students from overseas enrolled in professional schools in Japan cannot work more than 20 hours per week at part-time jobs, so these 2 Chinese are clearly working illegally. Yet because the two attend a Japanese language school on Monday, Wednesday, Friday and Sunday mornings, "I thought it didn't matter how many hours I let them work," says the employer at the refrigerated warehouse.

The employer has his reasons. The pay for this part-time job advertised in an employment information magazine was 10,000 yen per day. Japanese college students attracted by the pay applied, but none of them lasted a month. The two Chinese, however, worked far harder than any of the Japanese. Given such precious labor power, the employer does not discriminate against them in terms of remuneration but pays them the full 10,000 per day.

In Japan it is forbidden for foreign nationals without special skills or expertise to hold jobs, but with a worker shortage there has been a rapid increase in those working illegally, without proper visas. Most such workers are so-called unskilled laborers. According to an investigation by the Ministry of Justice, the number of those found to be working illegally in the single year of 1988 jumped to 26.6 percent over last year, to 4,314—a more than 6-fold increase since 1983.

However, it is said that there are actually over 100,000 foreign illegal workers in Japan. There are cases in which the law has been misunderstood, but it is a fact that practically all cases of illegal labor involve the full knowledge of both the employer and the employed. Says the owner of a bar in Shinjuku, Tokyo, that employs 30 Chinese, Bangladeshi, and others: "Since last spring I've been hurting for workers. While I realized it was illegal, I began to employ them."

Growing Influx Pressure

The importation of labor under the label of "trainees" is also increasing. Last December, 9 member companies of the 3,000 that comprise the Tokyo Small- and Medium-Sized Businessman's Committee decided to accept 20 trainees from China and applied to the Ministry of Justice for permission to do so. The group, composed mainly of college graduates around 25 years old, was scheduled to be invited in April. However, no permit has been forthcoming, for the reason that the companies do not have plans to expand into China and for other reasons.

"We could not employ new college graduates as we thought, so the object was to retain a work force by accepting trainees," explains the president of one of the participating companies.

Companies that try to place trainees have also appeared. Chu-Nichi Sentech, a consulting firm with headquarters in Sagami-gara, Kanagawa Prefecture, planned a service for introducing Chinese trainees to small- and medium-sized enterprises, concluded contracts with eight companies, and applied for a permit from the Ministry of Justice at the end of February. No permit was granted in this case, either, but it illustrates the heightened need for an infusion of labor among small- and medium-sized businesses, which are now facing a severe shortage of workers.

With income differentials opening up between Japan and the developing countries due to the sharp rise in the value of the yen, the increase in the influx of foreign workers also shows no signs of abating. "If you stick it out 2 years in Japan, you can save 2 million yen," the Chinese say. According to the Philippines Overseas Employment Agency, an unskilled laborer in Japan for 1 year earns between \$7,200 and \$12,000 (1.0 million yen to 1.65 million yen). While this figure conjures up images of forced low-wage labor, it corresponds to two to four times the annual income of a new graduate in the Philippines. Even taking into account the high cost of living in Japan, the sum is no doubt attractive.

Making Use of the Lesson of the West

The Japanese Government's proposal to crack down on illegal workers by revising the immigration and refugee laws (i.e., immigration laws) have prompted calls for restraint from overseas. "Right now there are about 80,000 Filipinos working in Japan," says Ernst Herrera, chairman of the Labor Committee of the Philippine Senate. "It's realistic to accept reality, and a strengthening of regulations is not a desirable thing for relations between Japan and the Philippines."

Professor Yoshiyuki Hagiwara of Dokkyo University also points out: "Foreign laborers, including illegal workers, are already integrated into the Japanese industrial structure. Simply closing one's eyes to reality and strengthening the regulations will only make the working conditions of foreign workers worse. Clear-cut rules should be established and more workers should be accepted."

As long as the situation remains unclear, such acceptance can breed friction in local society, with foreigners stealing employment opportunities from "weaker groups" such as the aged. The Japan Committee for Economic Development has completed a proposal that would create a large-scale "Practice Program" allowing specified numbers of unskilled laborers into the country for specified periods of time, but some urge caution.

"We should not allow unskilled laborers into the country easily just because there is a worker shortage in Japan and they can be hired at low wages," says Yasukazu Ogawa, a senior managing director of the Japan Federation of Employers Associations. "Once they're here, it would be difficult to send them back to their own

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FBIS-EAS-89-140-S
24 July 1989

97

country in an economic downturn, and there is the danger of causing serious social problems."

Hajime Hori, a planner in the General Planning Bureau of the Economic Planning Agency, which as a government study group first completed a proposal for a conditional quota of unskilled laborers into the country, has this to say: "Provided we can set up a solid mechanism of control and allow these workers in, we will be discharging our international responsibilities."

Western countries like West Germany and France, which took in large numbers of unskilled laborers in the period of rapid economic growth in the 1960's, are now facing serious social problems. If allowing foreign workers into the country is a trend that cannot be avoided, how is Japan to make use of that "lesson"? As the employment structure continues to change, what is needed now is planning a scenario for the future.

*** 'Users' Critique Financial System Reform**
41060119 Tokyo NIKKEI KINYU SHIMBUN in
Japanese 24-28 Apr 89—FOR OFFICIAL USE ONLY

[Five interviews with major Japanese business leaders: Yasuo Miyauchi, vice president of Hitachi Ltd.: "Incorporate the Principle of Competition; Gradual Evolution of comprehensive Banking"; Seiichi Kito, president of Mitsui Leasing Company: "Some Separation of Banking and Investment Is Allowable, Designation of Responsible Government Agencies Is Required"; Shigehiro Iwamatsu, vice chairman of Nippon Yusen: "Balance Between Competition and Order Is the Foundation, Financial Expertise Is Desired"; Kenjiro Ushioda, president of Toyo Sash: "Separation of Business Should Be Removed Gradually; Further Popularization of Stocks Needed"; Tsutomu Okui, managing director of Sekisui House: "First, Deregulate Commissions; Thorough Debate of Barrier Between Banking and Investments by Industry Is Needed"; interviewers not identified; dates and places not given]

[24 Apr 89 p 1]

[Text] A questionnaire surveyed the opinions of about 100 major firms concerning a deliberation of financial system reform (reported on 21 April). Almost 90 percent of the responses said that there was a "lack of consideration of the convenience of users." This shows that dissatisfaction is growing. What specific points were found to be unsatisfactory? We asked top managers what the "user's requests" were regarding system reform.

[NIKKEI KINYU SHIMBUN] How does the manufacturing industry view this inter-business discussion?

[Miyauchi] The trend in banking in the United States, Europe and other advanced countries is movement toward internationalization and deregulation. The aggregate value of listed stocks on the Tokyo Stock Exchange went over 500 trillion yen, and Japan became one of the highest ranked countries in the area of personal assets,

financial assets and foreign currency reserves. However, I have many doubts about whether Japan's financial system is suitable for a major creditor nation.

From the industrial sector's viewpoint, I am especially concerned that consideration of the convenience of users seems inadequate. It is important that system reforms hold true internationally and that they not cause disruption in the financial order. Along with this, it is essential that the fundamental attitude puts emphasis on the customer. This should be given full consideration before deliberation of reform goes forward.

[NIKKEI KINYU SHIMBUN] What are some examples of points that need reform?

[Miyauchi] In the case of corporate bond issuance, three important points are interest rates, commissions and the timing of issuance. Under the current system, commissions are high compared to international standards. Also, the fact that the heads of the receiving departments of securities firms meet only once a month hampers a company's efforts to issue bonds at the most opportune time. Also, viewed internationally, the method of guidance issued by the three bureaus of the Ministry of Finance (MOF) is somewhat anachronistic. In the area of fund application, I would like the system to provide a greater variety and diversity of financial commodities.

To do that, I think that competition and market principles should be incorporated into the financial sector. Currently, there is only limited competition among the major banks and securities firms, and the position of users is taken lightly. Hitachi became what it is today because there was fierce competition with rival manufacturers like Toshiba and Mitsubishi Electric Company. There cannot be healthy economic development without competition.

[NIKKEI KINYU SHIMBUN] Apparently deliberations by the Committee on Financial Systems Research will be narrowed to two proposals: the formula based on the Law Concerning Exceptions to the Banking Law, Etc. (investment banking); and the formula based on subsidiaries categorized by business conditions.

[Miyauchi] If just the user side, including individuals, is considered, the most desirable formula is comprehensive banking, where one financial institution provides all services. However, that is strictly an ideal. If this is introduced all at once, it is clear that only the strongest financial institutions would survive, and there is danger that an oligopoly would be created. Also, the holding company formula inevitably would lead to revival of financial cliques.

Along with consideration for the customer, it also is important to consider the interests of people who are in a relatively weak position. It will not do for just the major city banks, which will be strong in comprehensive banking, to prosper while regional financial institutions die. By the same token, in the manufacturing sector,

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FBIS-EAS-89-140-S
24 July 1989

98

subcontractors and other small and medium-size businesses are able to maintain international competitiveness because they are attached to a solid base.

In this sense, it can be said that conditions of competition among financial institutions are relatively equal under the two formulas—those for investment banking and subsidiaries categorized by business conditions—and will promote competition. Perhaps the most realistic way would be to select one of the two proposals, try it out for 3 to 5 years so that it gradually evolves into comprehensive banking.

[NIKKEI KINYU SHIMBUN] What are the problem points of each proposal?

[Miyauchi] The investment banking formula is said to specialize in wholesale transactions, and the fact that its services would be limited to big firms is something to think about. We need to look at merits for small and medium size businesses and individuals as well.

Also, whether the barriers to such things as information and funding between the parent company and its subsidiaries function well is a concern. Even if the system is set up well, can there be as mechanical separation so long as the parent company has authority over personnel? Making a proposal is easy, but reality is very complex.

[25 Apr 89 p 1]

[Text] [NIKKEI KINYU SHIMBUN] How do you view recent deliberations on financial interbusiness?

[Kito] The five reforms recently proposed by MOF indicate strongly that discussion has covered only banks and securities firms. Interbusiness issues should be considered from a more comprehensive viewpoint. Postal savings, agricultural cooperatives, as well as leasing companies such as ours are all financial institutions, so there are many government agencies with jurisdiction; in addition to MOF, this includes the Ministry of Posts and Telecommunications, the Ministry of Agriculture, Forestry and Fisheries, and MITI [Ministry of International Trade and Industry]. Only one aspect of the problem is being deliberated at this time, and it has to be said that the discussion is a turf battle between banks and securities firms.

Before such discussions, we should decide what the financial system as a whole should be. If not, the discussions will end up as usual disregarding users which is so typical of Japanese politics and business.

[NIKKEI KINYU SHIMBUN] Is reform of the financial system necessary?

[Kito] Yes. At one time, it was important to protect both depositors and investors. Now that there is a wealth of investment information, there is less need to protect the investor. Frankly, we need only protect depositors. Beyond that, we just need to prevent chaos and create a system that will function smoothly. When the life of the

"government-managed" financial system, as represented by postal savings, is over, consideration should be given to shifting it to "private management."

To address these problems comprehensively, it also will be necessary to decide which government agencies have jurisdiction. Right now, MOF is drafting a paper strictly on sectors under its jurisdiction, but that will not take care of the whole problem.

[NIKKEI KINYU SHIMBUN] Do you mean that the preliminary stage of the deliberations was very inadequate?

[Kito] Yes. If discussion of banking and investment issues were more broad-ranging, answers would emerge naturally. The comprehensive banking formula is totally unsuitable for Japan, where financial institutions abound. On the other hand, what is the status of compliance with the banking law's 5 percent restriction on bank ownership of stocks: Very bad, with use of ruses such as dummy corporations. If this is not rectified, bank control over enterprises will become too strong. It is not right to deliberate this issue without dealing with this abnormal situation.

If you consider such problems, beginning with the need to protect depositors, the choice narrows down to a conditional investment banking formula.

[NIKKEI KINYU SHIMBUN] Is separation between banks and securities firms needed? Would this cause inconvenience for users?

[Kito] As a user, I have not been inconvenienced, either (in my former position of vice president) of Mitsui and Company or here. I think that some separation is fine. A leasing company has to live with limitations arising from the leasing business. Financial order and standards are necessary. I do not feel that the Japanese mode is so bad.

On the other hand, oligopoly is not good. It came about because there were many things that could not have been accomplished except by the four major securities firms. Nevertheless, the oligopoly will crumble naturally now that the market has expanded so much. Recently, there have been examples of undertakings without participation by the four firms, and this is a sign that the oligopoly is crumbling. It will continue to crumble on its own.

[NIKKEI KINYU SHIMBUN] Leasing companies and other non-banks are demanding that the ban on commercial paper (CP) issuance be lifted.

[Kito] It is ridiculous that we cannot issue CP. After all, CP began in the United States in the financial sector of manufacturers, i.e., non-banks. We must not forget that aspects needing financial reform are CP or corporate bond issuance and financial commodities.

I want to say that even if the final outcome is the same, it is not right to decide on reforms before the discussion is complete. The Japanese system has too much respect for "fait accompli." It is better to reform the system now,

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FBIS-EAS-89-140-S
24 July 1989

99

even by using external pressure, but efforts should be made to get concurrence from the people.

[26 Apr 89 p 1]

[Text] [NIKKEI KINYU SHIMBUN] There is strong criticism in the industrial sector that the deliberation on financial system reform is being conducted without input from the users.

[Iwamatsu] I think that whether reform will benefit the user in the long run will depend on whether financial order can be preserved. I do not intend to make selfish demands for measures that merely make things convenient. For example, it would be rash to say, without giving it much thought, that all financial commodities should be available for purchase in one place. If this makes the system more convenient but intensifies a turnover in competition and makes financial order into chaos, it conversely will be disadvantageous to the user.

Financial commodities are trust commodities. The maintenance of financial order can be said to be a prerequisite for maintaining trust in the commodity. Historically, strict legal restrictions made possible the stable existence of shipping, agriculture and the financial sector. The financial sector in particular was outside the sphere of free competition. The present reform of the system is meaningful in that it will break up this structure based on indulgence, but we must not forget the basic principle that there is a balance between advances in free competition and maintenance of an order of trust.

[NIKKEI KINYU SHIMBUN] What do you think about removal of the separation between banks and securities firms?

[Iwamatsu] Senior officers of financial institutions say that they are urging their personnel to expand operations, but they do not seem very confident that they new operations can be handled when the barrier is removed. I cannot believe that banks really want to handle stock transactions. Some probing brings to the surface the fact that the banks' strategy is to ask for authority to provide all services in order to grab all the money that is slipping away.

[NIKKEI KINYU SHIMBUN] MOF has narrowed down the original five formulas for reform to two proposals: the investment banking formula and the formula of subsidiaries categorized by business conditions.

[Iwamatsu] I would like to respond by asking whether these financial institutions want to expand operations even if it means creating separate corporations. They will be able to handle operations independently just by changing their corporate status, so it is only a compromise to avoid conflict with current business laws.

Users want financial experts. One can get anything at a department store, but when a golfer wants clubs, does he go to a department store? It is human nature to want to shop at a golf specialty store. Similarly, one will not feel

secure if one consults a bank about stock trends. The results would be the same if subsidiaries were formed. I cannot believe that experts can be nurtured in this way. Thus I cannot agree with the subsidiary formula, much less the comprehensive banking formula.

[NIKKEI KINYU SHIMBUN] In that case, which of the five proposals is best?

[Iwamatsu] I think that separate specialized firms for trusts, foreign exchange, securities and settlements will be more convenient for us. The appropriate thing would be a formula of reciprocal extension of services whereby banks and securities firms add on to their respective main operations peripheral operations that require little expert knowledge.

The question is the extent to which this reciprocal extension of services can go. Window operations, such as currency exchange, stock purchases and deposits can be done anywhere without effecting the majority of the people. However, my argument is that banks and securities firms should be separated enough so that stocks can be bought in a bank, but more complex transactions remain the domain of securities firms.

Of course, if reciprocal extension of services is adopted, I would like to see prohibition of the "bartering formula," wherein approval is given for banks to sell or deal in government bonds in exchange for allowing securities firms to issue mid-term government bond funding. What is needed is convenience for the user, not selfish egoism in the financial sector. Please understand this to be the common perspective of the industrial sector.

[27 Apr 89 p 1]

[Text] [NIKKEI KINYU SHIMBUN] Your company has adhered to the management posture of respecting stockholders, such as by giving 10 percent bonuses. From that viewpoint, what do you think about the deliberation on financial system reform?

[Ushioda] I am firmly committed to the management principle of making stocks available to the public. Consequently, I want the system reformed to allow free purchase of stocks by the people. People who would hesitate to go to a securities firm are accustomed to banks, and I think that people should be able to buy stocks at their banks.

Our calculations are that the annual average yield from stock investment over the past 20 years is about 16 percent. Since the tempo of growth of companies probably will accelerate in the next 20 years, people should invest actively in stocks. This profitable application of funds should not be monopolized by institutional investors and a few wealthy people.

[NIKKEI KINYU SHIMBUN] What dissatisfactions do you have with the financial system?

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FBIS-EAS-89-140-S
24 July 1989

100

[Ushioda] I am aghast at the high commissions for underwriting that is charged by securities firms. The securities firms say that it is logical to incorporate the cost of the risks they take from the time a new stock or bond is underwritten to the time of disposal. In reality, however, the enterprise supports the value of the stock and there is no risk for the securities firm. Thus commissions could be halved. The same can be said for the consignment fees charged by banks.

[NIKKEI KINYU SHIMBUN] There is a great deal of criticism that financial institutions are getting excessive profits.

[Ushioda] This may sound contradictory to what I have just said, but I do not think that they are profiting too much. The commissions are the same for all financial institutions and whether they are high or low is a policy matter. The only important point is whether government policy is needed in the financial sector.

If policy restraints are removed and free competition is allowed, financial institutions will be pursued by the logic of capital and, as in the United States, the inevitable result will be leveraged buyouts (LBO) and hostile mergers and acquisitions (M&A). Managers of U.S. firms are in constant fear of being bought out. Commissions are like money paid to the government, to ensure that massive financial power is not wielded. This allows enterprises to choose the path of growth with confidence.

[NIKKEI KINYU SHIMBUN] Do you favor removal of the barrier between banks and securities firms?

[Ushioda] Financial deregulation is the tide of history and no one can stop it. My concern is that if all policies are lifted in the name of liberalization, it is very possible that industry will be ruined. If the barrier is removed by gradually withdrawing the power of the government, then only the most inept companies will fold.

One government policy that should be eliminated is the guidance issued by the three MOF bureaus when bonds are floated overseas. I have heard that banks have been unable to take the leadership for such flotations because of this unwritten law. However, if the interests of users are considered, companies still must have the leeway to choose when the barrier is to be removed. It is in the interest of the companies for banks or securities firms to be able to become underwriting managers.

[NIKKEI KINYU SHIMBUN] If that happens, the banks will grow very strong.

[Ushioda] If a bank's role is to tend and nurture fledgling companies, securities firms will carry off all the profits when the companies reach maturity. The more a company can stand on its own, the further it grows from its bank. Therefore, I cannot subscribe to the view that removing the barrier will increase the ability of banks to control enterprises.

In any event, the current rigid separation of banking and investment operations is inconvenient for the user, and I

would like to see user participation in the discussion of financial system reform begin as soon as possible.

[28 Apr 89 p 1]

[Text] [NIKKEI KINYU SHIMBUN] What do you think of the deliberations on financial system reform?

[Okui] The main principle for any product should be, "the consumer is king," but somehow this principle has not been followed in the financial sector. The debate has been conducted strictly from the standpoint of the conflict between banks and securities firms. The views of users have not been reflected at all. Banks have the Federation of Bankers Associations of Japan and securities firms have the Securities Dealers Association of Japan, but users do not have such organizations. It is difficult for individual companies to make demands of financial institutions.

[NIKKEI KINYU SHIMBUN] With what specific points are you dissatisfied?

[Okui] The commission problem. In the fall of 1986, Great Britain deregulated commissions and this increased the dominance of companies (over banks) and allowed them to procure more funding at less cost. They are in the exact position that we want.

What about Japan? Commissions are much higher than in Great Britain because the principle of competition is not in operation at all. That is true also of the new short-term prime rate that was introduced by the banks. Market principles are not at work because all the banks charge virtually the same commission. In other words, many aspects of relations between financial institutions and enterprises are affected by personal relations and other noneconomic factors. That is, the economic mechanism is not working. This is the basic problem, and it must not be ignored in the deliberations of financial system reform.

[NIKKEI KINYU SHIMBUN] What do you think of removing the barrier between banks and securities firms?

[Okui] Banks are demanding adoption of the comprehensive banking formula. However, I think that this formula will conversely hinder development of the financial and securities sectors. It can be said that these sectors prospered in Japan because they were kept separate so they were able to mutually narrow the focus of their knowledge and concentrate on acquiring clients.

If the comprehensive banking formula is adopted, the major financial institutions will grow too massive. They will become department stores that carry financial commodities and there is a danger that inefficient commodities and services will be discarded, one by one. It is to the industry's benefit that the barrier stays up to some extent.

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FBIS-EAS-89-140-S
24 July 1989

101

[NIKKEI KINYU SHIMBUN] Deliberations by the Committee on Financial System Research have been narrowed down to two proposals: the formula based on the Law Concerning Exceptions to the Banking Law, Etc.; and the formula of subsidiaries categorized by business conditions.

[Okui] I am not an expert and I do not know the strengths and weaknesses of the two proposals. However, since I have never experienced much inconvenience in getting financing under the existing system, I do not think that it is necessary to alter the whole system completely.

This also is true in terms of fund application. There are two types of financing, the low risk commodity with a guaranteed principal and the high risk so-called computer-aided investment commodity. We do not care at all whether there are separate windows for these two. The separation is an internal problem in the financial and securities industries. The two industries should take adequate time to thoroughly deliberate the problem. The review of the commission system is in a different dimension, however, and should be addressed immediately.

*** Financial System Reform Debated**
41060128 Tokyo *NIHON KEIZAI SHIMBUN* in
Japanese 3 Jun 89 p 26—FOR OFFICIAL USE ONLY

[Article by Professor Rozan Shoichi, Osaka University]

[Text] (1) The debate over financial system reform is in full swing. Among the defects in Japan's present financial system is a lack of competition in every financial service sector which results in innovative efforts being nipped in the bud.

(2) This defect is evident when the necessity for an arrangement that is internationally accessible is understood, and from the standpoint of the needs of the users of the financial system.

(3) At the same time, the consolidation of a "market system" driven by the appearance of new products attendant upon an increase in security transactions also must be addressed.

(4) Only after the two systemic problems have been solved of a reconsideration that does not stop at the demarcations between business sectors but also extends to how far a competitive market system can be established can a desirable financial system be retained.

Financial System Reform

The debate over financial system reform is at last in full swing. The Second Financial System Committee of the Financial System Research Committee has already published an interim report, "About a New Financial System." Basically, it proposed that the direction of reform from now on should be to stimulate entry into various lines of business using either of two methods: establishing affiliates in lines of business separate from

those of their parent companies, or establishing investment banks under a Special Exceptions Law—or a combination of the two.

Moreover, the Securities and Exchange Commission's Basic Problems Study Group, in an interim report titled "About the Capital Markets' Response to the Securitization of Finance," emphasized that consolidating the market system handling securities in the broad sense will be a major concern from now on. In addition, the Ministry of Finance's Securities Bureau Chief's inquiry organ, the Investment Trust Study Group, also indicated that, as part of the way investment trusts should be handled hereafter, foreign investment trusts should be allowed entry into the domestic market.

In this way, the blossoming of the debate over the reform of Japan's financial system is beginning to open all at once.

It will still take time for systemic reform to be started in earnest. That reports have come out does not mean things will change immediately. However, with various public reports now out, systemic reform cannot be held back.

Of course, it cannot be denied that there is a question of whether the present Japanese financial system really needs reform. All facets of the Japanese economy are in an upturn. Personal and corporate capital asset accumulation is proceeding smoothly and asset diversification is also taking place. Compared to the past, the balance of capital among individuals, corporations, and industry has improved. It is not necessary to try troublesome reforms at a time like this, or so the thinking goes.

However, this kind of judgment expects too much of the existing state of affairs. If the structural defects of the current system are concealed now, it will be too late to institute such reforms in an emergency later on. Now is the time when reform should be started, when the economic environment is favorable. At the very least, it is necessary that there be a thorough discussion of concrete reforms that can be put into practice and preparations made beforehand so that reforms can be initiated at any time.

Internationally Accessible Arrangement Necessary

What, then, are the defects of the current system? Briefly, they can be summed up in the following two points. First, to varying degrees there is a lack of competition in every market and every financial service sector. Second, traditional sector demarcations with respect to financial services are out of date; as a result, the system's divisions nip new, innovative efforts in the bud.

Rocky relations with overseas financial organizations clearly indicate the absence of adequate competition and the stifling of innovative efforts. In contrast to the difficulty foreign financial institutions have in entering

the Japanese market, the "over-presence" of Japanese financial institutions is being questioned abroad.

Japanese financial institutions are excessively protected by the [Japanese] financial system and so do not always operate on a level playing field.

It is not impossible to refute these charges, case by case. However, looking at the overall picture, Japan cannot assume a role befitting a financial superpower as long as this situation continues. In a global financial system that is erasing national borders, even domestic financial systems have to be internationally accessible.

Nor is the international aspect the only one. When the position of the end users who utilize the financial system is considered, it is better to have more competition, including competition in interest rates and prices, and this goes without saying. There is room for further improvement in products and service. Ordinary users of the financial system harbor many of these desires and dissatisfactions, although perhaps not openly.

The problem is how to take these potential desires and dissatisfactions into account and reflect them in improving financial service from financial institutions. The custom until now has been for the industry or its representatives to listen to users and handle them as an industry. The government encourages this. This is the standard practice. It worked well during the period of rapid economic growth. However, now it is no longer enough. The needs of end-users have become extremely diversified.

Individual financial institutions are seeking to determine needs of their own and, motivated by the profits reverting to them, are improving financial services. These efforts are being carried out under equitable competitive conditions. A harsh verdict is handed down from the market if such efforts are neglected. It is the establishment of just such a system that is now being sought.

The committee's interim report, "About a New Financial System," contains one chapter, "Viewpoints on How the Financial System Should Function," that notes this point succinctly. In general, it is important for all markets to stimulate competition and to become reformed so that they are internationally accessible.

In addition, the report goes one step further and advocates that it is necessary to promote new entries into the industry for the purposes given above, or at least relax the systemic conditions for entry in order to heighten the "threat" of such entry. In conjunction with this proposal, the concrete direction (though not the content) of the relaxation of entry conditions suggested by the report, as touched upon in the heading, involves either the establishment of affiliates in lines of business different from those of their parent companies, or the establishment of new financial institutions under the Special Exceptions Law—or a combination of these two methods.

Even so, it is not always the case that the promotion of new entries into each and every financial business sector under this policy poses no problems whatsoever. Due consideration must be given to the fact that problems do remain. Hereafter, when it comes time to work out concrete entry conditions in conjunction with this policy, every effort must be made to resolve as many of these problems as possible.

For example, although new entries may stimulate competition temporarily, after a certain amount of time competition is actually stifled—an effect exactly opposite that of the original intention. Hereafter, the concrete content of regulations governing new entries must be studied in great detail taking this kind of point into consideration.

When considering competition in the financial services business, the problem of how to stimulate competition within individual business sectors that have come to be traditionally demarcated, though important, will not be the only one. Competition within new sectors that are difficult to place according to sector demarcations in place up to now, will grow in importance from now on.

One after another, new financial trading sectors have appeared, sectors that are difficult to place in existing business sectors as outlined by the existing business sector demarcation (legally, these are regulated by the business laws). This trend is growing and will not abate. The so-called "increase in security transactions" movement is the archetype of this trend.

What should competition be like in these new sectors? Let's hypothesize that securities solicited and marketed by unspecified large numbers of people come to assume a major role in "the increase in security transactions." Competition in this case would be controlled largely by the type of market system for these securities.

In other words, the state of the systemic infrastructure—i.e., (1) the completeness of the disclosure system, (2) the kinds of legal provisions set up to maintain fair trading conditions, and (3) the degree to which trading rules have been established—would greatly influence the competitive conditions of that market.

Incomplete Rules Hinder Development

Therefore, before solving the problem of which existing line of business and type of financial service corporation these new businesses should be entrusted to (the so-called line-of-business question), the market system for new products, and in particular products related to "an increase in security transactions," must first be made a firm one.

One concrete expression of "increased security transactions" is commercial paper (CP). The CP market has grown rapidly and at the end of last year accounts held over 9 trillion yen. Given such growth, it would seem that all is well; not so.

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FBIS-EAS-89-140-S

24 July 1989

165

Because CP is a new product, security measures such as a disclosure system, regulations to maintain fair trading, and market trading rules have not been fully established legally. So such restrictions as making 100 million yen the minimum trading unit and limiting marketing to institutional investors have been instituted by notification from the Ministry of Finance, limiting the development of the market as a result.

With these restrictions put in place, average investors shun participation in the CP market; so in reality the restrictions take the place of a full-fledged market system. Consideration of this fact permits one to understand the importance of the consolidation of the market system as a future concern.

Systemic problems are debated as a single issue, but actually they contain two different problems. The proposal of the Second Committee of the Financial System Research Committee must be made the basis for reforming those trading sectors to which traditional business sector demarcations apply. However, this proposal is inadequate for the new sectors. An answer stemming from a different premise—market system consolidation—must be readied. The problems brought on by increased security transactions are nothing other than systemic problems.

However, these systemic problems must not be confused with the so-called demarcation problem between (for example) the banking and the securities financial business sectors so often reported in the media. Instead a sound systemic framework should be created to ensure a good market for the advancement of increased security transactions.

A reconsideration of the demarcation between business sectors and a lowering of systematic entry barriers are themselves important matters. However, not all systemic problems should be dealt with by these measures alone.

Taking the position of end users into consideration, it can be seen that the creation of a truly competitive market system is also an extremely important systemic reform. Only with a complementarily well-balanced solution to both systemic problems can the fabric of a desirable financial system be woven together.

* Analysis of Financial System Reform

41060120 Tokyo KINYU ZAISEI JIJO in Japanese
1 May 89 pp 19, 56-62—FOR OFFICIAL USE ONLY

[An informal conversation among officials responsible for planning for Long-term Credit Banks, Life Insurance companies, City Banks, and Trusts, led by KINYU ZAISEI JIJO]

[Excerpts]

The Five Concepts

Concept A (Mutual Overlap Method)

The current business fields for each industry are for the most part as indicated in the diagram [not reproduced] but while respecting these, mutual overlaps will be promoted in the future.

Concept B (Industry Subsidiary Method)

While respecting the current business fields of each industry, mutual overlaps will be promoted by 100 percent subsidiaries.

Concept C (Special Case Rule Method)

A new financial institution system will be established to conduct banking business, including bank debentures, trust business, and securities business (however, specific restrictions will be imposed on the above types of business, such as limiting it to wholesale [large business loans], for example) and there will be participation by the respective 100 percent subsidiaries of the various industries.

Concept D (Special Company Method)

While respecting the current business fields of each industry, mutual overlaps will be promoted via special company subsidiaries.

Concept E (Comprehensive Bank Method)

All businesses will be conducted by the industry itself.

Restructuring of Financial System Has Begun To Move

The financial system reform debate is intensifying with concepts B and C. Will the review of the separation of banking and securities, recently the biggest issue, be cleared up by this? It appears that a great gap lies between the arguments about what the financial system should be, and the assertions of each industry. Debaters representing each of the financial institution industries discuss their true feelings in the following.

Deliberation on Missing Settlement of Accounts Mechanism

[KINYU ZAISEI JIJO] Deliberations on reform of the financial system in a secondary committee of the Financial System Research Council are facing a juncture. Soon an interim report will be put together and looking back, the greatest focus has been on the issue of separation of banking and securities. It can be said that the problems of reciprocal benefits, barriers, and oligopoly were not debated to this extent?

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FBIS-EAS-89-140-S
24 July 1989

104

Long-term Credit Banks: In the United States in the argument about both reciprocal benefits and barriers, there is a feeling that weight should not necessarily be given just to reciprocal benefits, as the securities industry has been saying. Rather than that, how is the stability of the settlement of accounts mechanism to be secured? The settlement of accounts mechanism is seen as a basic influence, public property so to speak, for the respective societies and it is extremely important to maintain it properly. Arguments about what to do for that purpose have been a large part of the Corrigan Report. In a certain sense, it becomes necessary to limit the argument about flat reciprocal benefits.

Life Insurance: The argument on barriers has come to the fore, but I think what you have pointed out about it is correct. The quintessence of the U.S. system is the Corrigan way of thinking. The U.S. wall is a wall built surrounding commercial banks. There is a large wall around commercial banks and one might go so far as to say that other financial institutions, including business corporations such as Sears Roebuck, are a perfect "open field." The European comprehensive bank has no walls between settlement of accounts and investment bank business.

The issues here have not been discussed. In the debate on the financial system, only the U.S. barriers have been publicized and the basic Corrigan way of thinking has not been fully discussed. I believe this is a very important viewpoint.

I believe that though the comprehensive bank of Concept E can be called ideological, the securities business is completely different, depending on the cultural climate, from the standpoint of doing actual business, and it would be difficult for one management to operate it properly.

For them respectively to compete and be successful in various financial operations, one should think that the differences in management would be most important. Among the concepts, the best is the subsidiary method. Moreover, C is believed to be very good for a transition period since there is no antitrust law problem as in B and D and I believe it is a proposal worthy of full study.

City Banks: I agree if C is considered valuable for a period of transition, by a process of elimination, C will come to the fore.

The viewpoint that comprehensive banking is impossible for the Japanese is widely understood, but there is also ignorance as to whether or not it can be skillfully managed unless it is tried.

As a first step toward that, even though it is not in the form of comprehensive banking, the ideal management can be learned and put into operation by simultaneously operating a securities business, which is said to be the most different in tone within one group. After discerning that, as the next step with regard to the selection of

comprehensive banking, I feel it is necessary to anticipate opening a path in that direction.

I believe that ultimately, the desired direction within Japan's financial system will be individualized by each separate financial institution. In promoting individuality, first experimentation will be done in a limited fashion as one step, and those portions which do not work will be directed toward a specialized separate path. C will surface based on that kind of positioning.

Since the settlement of accounts system must be separated from the rest so that in the last analysis the risk will not extend to it, I believe that a wall is necessary. What will be the scope of the bearer of the settlement of accounts system in that case? I believe this should be discussed. Will this be just existing bank deposits? Even with simultaneously operating trusts, the risk extending to the settlement of accounts can be considered negligible because basically if it is shared it is not very great, and rightfully it is determined by whether they are long- or short-term accounts. It probably will be necessary to discuss who will be the bearer of that.

Two Securities Conversions Promoted

[KINYU ZAISEI JIJU] Is a new review of bank and securities separation necessary?

Long-Term Credit Banks: First of all, the view of long-term credit banks is that the issue of bank debentures by long-term credit banks from the beginning has been truly a typical securities conversion business. Securities conversion normally is the circulating of general bonds, or in other words, conversion to securities and sale. So, loans are conducted at the very beginning and as the next step, they are made into securities and sold. On the other hand, a bank debenture is an offering for sale of securities which anticipate such loans. From that viewpoint, it can be said that we have been involved in the securities business from the beginning.

Consequently, it is very strange to debate whether long-term credit banks and banks are different or if long-term credit banks are banks under the existing system.

Moreover, since the actual activities of the customer have broadened in the securities field, banks have been unable to respond to this though they have had a long transaction relationship. If this field can be handled by banks but the securities field cannot when submitting proposals, though the clients' needs in promoting business are understood, it does not become a coherent proposal and the situation continues where they cannot respond to those needs.

Trusts: In the Securities and Exchange Council Study Group on Basic Securities Problems, an economist spoke of using securities as a procurement method in the unbinding of the banking business. In that sense, the

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FBIS-EAS-89-140-S
24 July 1989

105

division between banks and securities will not matter to those seeking to procure capital.

[KINYU ZAISEI JIJO] Viewed from the issue of reciprocal benefits, do you think the C method is suitable for reviewing the separation of banks and securities?

Trusts: This is because everyone is involved in other business while continuing in their specialized sector. There is the issue of why only those people using the C method can conduct other business. Insurance companies cannot and trading companies cannot, but there has not been one debate about this.

City Banks: I believe the point in contention is whether you consider finance to be commerce, but indeed there has been no discussion about this.

Trusts: Does public opinion agree that it is? [passage omitted]

Japan is lacking most in individual competition. That is because we erect walls and compete within them. By all means, we should adopt a way of thinking that approaches the international style.

In speaking about the separation of banks and securities, I believe that Kanda's settlement of the issue in the Securities and Exchange Study Group On Basic Securities Problems is very clear. I believe that ultimately there will be a situation where within the promotion of the two types of securities conversion, with not just a securities conversion of enterprise finances but also security conversion of capital finances, specialists will enter their respective fields, dismantling the existing classical banking business and securities business.

Conversely, the logic of borderless capital as such is being promoted in the wholesale market world, surmounting systems or theories, and talk of the separation of banks and securities has come to nothing. In short, we are coming to a situation within the international borderless wholesale market where even if you raise a flag, you soon are swept away by the waves. I believe that the greatest vector of banking and securities separation can be sought there.

A Form Desiring Logic

City Banks: I believe there are some problems with the special case rule institution which can handle all long and short-term trust accounts as it thinks of itself as limited to wholesale banking.

It probably indicates the thinking that as a first step, special case rule financial institutions or industry subsidiaries for the securities business are a handy method to remove the barrier with securities in whatever form and authorize banks to have long- and short-term procurement methods and to operate trusts simultaneously. However, isn't this authorization clearly delineated?

Therefore, the ideal theories are B and C, but as a practical argument, there is a question that C somehow is

a form that really desires logic because it seems to be thinking in which bank debentures are also issued by special case rule financial institutions and they handle both the wholesale field of the trust business and the wholesale field of securities.

Trusts: If long-term credit banks should seek to become special case rule financial institutions, what changes will they make? If banks want to do what long-term credit banks now do, won't they just make long-term loans?

City Banks: That is probably what will happen.

Trusts: If that is true, they will simply make loans without procurement methods. [passage omitted]

[KINYU ZAISEI JIJO] Do city banks want to be involved in trust business?

City Banks: I believe there will be a need and a latent potential in the future.

Life Insurance: The life insurance companies are the ones who most want to be involved in trusts. (laughter) To begin with, we would like to be involved in land trusts. We own a lot of real estate, and since we make long-term loans, we would like to be involved in land trusts because of our know-how and experience to date.

Trusts: We have been authorized to be involved in land trusts and we have 10 percent of our assets in these shares. We have opened up 300 offices. We employ 50,000 people. (laughter) We do this to increase the life insurance business. How would you be able to do the same for another business?

Life Insurance: We would use subsidiaries. [passage omitted]

Isn't It Eating Bit By Bit?

[KINYU ZAISEI JIJO] It has not reached the point where it can be completely separated. Are bank debentures really necessary for city banks?

City Banks: There is a need to have them as a long-term capital procurement method. Or, 5-year fixed terms would be all right. The loss of bank debentures would not be a severe problem, but there is a need for them.

Although we would like to become involved in trust business starting tomorrow, we do not think it can be done immediately.

However, with regard to land trusts for example, we have the same kinds of needs. City banks have a network of about 300 offices as a national base. Each branch is in charge of the financing for that region, and the branch does not grow until that region develops. [passage omitted]

Trusts: It is city banks who desire regional development. (laugh)

FBIS-EAS-89-148-S
24 July 1989

106

City Banks: That is true, but for a financial institution to expand in the future, it will be necessary for individual branches to expand.

Trusts: There was a period in the past when you also did trust business. Now in what form do you conduct it?

City Banks: That is a decision of each individual financial institution. You should do it if you think it can be done by your institution. If it is questionable in terms of know-how or capable personnel, you should merge with a trust bank that already exists. I think there are any number of such variations.

Trusts: There is no other place for specialized financial institutions to go. It's not everything, but at least city banks have been authorized to deal in loan trusts. If you want to do it, you can do it somehow. It was more difficult in the period of reconstruction after the war, however, since capital was tight, and we were not able to deal in trusts at all, so we discontinued them. Now we deal exclusively in trusts. [passage omitted] Now, city banks also want to be involved in securities-related trusts because they are profitable, but if the direction of the wind changes, they will only handle them for a while and then abandon them again. That probably is natural because it is a private enterprise, but is that really right?

It is different if you believe that trusts are not necessary in Japan, but we at least don't believe that. That is because we are a specialized financial institution. Land trusts are good now, but over a long period of 20 to 30 years, I believe there will be various problems. We undertake them earnestly as the responsibility of a trustee, but will general commercial banks really do such things? Rather, they will feel that it is not worth the trouble.

City Banks: Whether it is worth it or not, they are, at present, difficult to conclude. To pick and eat just the good parts and throw the rest away is not the way trusts should be handled. I believe that after getting into trusts, a device is necessary to guarantee the continuation of the trust function.

Life Insurance: That is a separate company. Since indeed you handle trusts only when they are profitable I believe it should be a part of a separate company with its management having the responsibility. [passage omitted]

City Banks: What difference is there if the institution itself or a subsidiary handle the trusts? When trusts are handled by the institution itself, do the concerns you speak of actually appear and if by a subsidiary, can they all be avoided? It is necessary to look at such a comparison.

The Wholesale Business

[KINYU ZAISEI JIJO] From the standpoint of advocating a review of the separation system, it has no appeal if financial institutions under the special case rule method are limited.

Life Insurance: It is good if all aspects such as employment, procurement, etc., can be handled by the subsidiary, but cutting it off from the parent company should be left to respective management decisions. When creating a subsidiary, I do not believe it is very constructive to erect a wall in front of you. Rather, the responsibility should be left to management. Since it would be unreasonable if the banking business and securities business, which are completely different, were handled by the same individual it should be done by dividing the company and having a separate management from the parent company. I believe this is a management issue.

City Banks: It will be difficult for some institutions to detach themselves from a subsidiary. Financial institutions by the special case rule can choose to remain one entity. The guarantee of such freedom is a premise.

[KINYU ZAISEI JIJO] Do wholesale special case rule financial institutions exist?

Long-term Credit Banks: They exist if you consider long-term credit banks. Although we sell discount bonds, the actual composition of our clients is varied. Overseas it is called private banking. From the aspect of giving credit, it is truly wholesale and centers on enterprises of a considerable scale.

However, the financial needs for large company discounts are satisfied in the form of securities, or city banks may enter the picture. We tax our ingenuity concerning this by the use of finance technology and we develop project financing or M&A [merger and acquisition].

If it is divided by the system, however, it is clear there will not be sufficient profit. For example, in project financing, a company is created for the project. The parent company can only make guarantees limited to that. In the case of undertaking a new venture business, the equity portion cannot be handled under the Japanese legal system. That being the case, it is only a loan.

Moreover, if there constantly is a surplus of money, this field will continue to be popular without judging the risk. This cannot be solved unless there is equity involved.

When M&A actually increases benefits overseas, equity is acquired or instead of giving it up, an advisory fee is obtained. In Japan, however, that is separated by the system.

Of course, the regular long-term prime and short-term prime loan business to big enterprises or the simple acceptance of Eurobond straight bonds also are wholesale, but these clearly do not increase profits that much.

How Do You Draw The Line?

City Banks: Wholesale [large business loans] and retail [consumer and small business loans] loans can be understood conceptually, but it is not clear exactly where you draw the line. The tenor of wholesale and retail is completely different. A different logic is at work, but at

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FBIS-EAS-89-140-S
2/ July 1989

107

the same time, retail power is necessary to solidify the wholesale business. I think they are inseparable. For example, in accepting a corporation debenture, even for large ones, it depends on whether small lot separate retail sales are possible in order to make an actual profit.

[KINYU ZAISEI JIJO] To what extent is selling possible if authorized?

City Banks: It is rather narrow. For example, since the greatest source of sales power is a network, sales through branches of the parent company are authorized.

Long-term Credit Banks: The division of wholesale and retail loans cannot be clear-cut in the sense of writing a law. [passage omitted] [KINYU ZAISEI JIJO] There have been desires for participation by other industries such as life insurance. What do you think of that?

Trusts: That depends on what kind of business special case rule financial institutions decide on. If it becomes a settlement of accounts business, the life insurance industry probably cannot become involved. In this thinking on special case rule financial institutions, the logic of excluding nonbanks has not been reviewed. Since other businesses are authorized which up to now have been prohibited, there is no reason to exclude the participation of nonbanks. Though they have no experience and no backup brakes, the securities business has no experience in banking.

Life Insurance: That's a sound argument.

City Banks: Whether or not they assume a settlement of accounts system, there will be a fork in the road. If settlement of accounts is the center of the financial involvement, there probably is no logic for exclusion in the peripheral fields.

[KINYU ZAISEI JIJO] What about the central portion?

Life Insurance: If you try thinking of it as separating the international market and domestic market, it is easy to understand. [passage omitted] In the world market, wholesale has no relationship with national boundaries.

In the domestic market, including settlement of accounts, the portion rooted within national boundaries naturally should be considered separately. If the non-nationality portion is called wholesale, I believe the idea of competing there is very natural.

Trusts: That is right. That is because trusts tend to be domestic. (laughter)

What About The Logic of Strength?

[KINYU ZAISEI JIJO] Doesn't the argument now pose an aspect of imposing the logic of strength?

Trusts: That doesn't mean that we are opposed to increasing the efficiency of financing or in making the

financing business a strategic industry of Japan. However, for example, there is a question about whether or not it is a period of aggravation more than oligopoly or the "North-South issue."

The liberalization of interest also is important, but we are not yet experiencing a situation where interest rates are rising. If interest suddenly rises, there is a possibility that it will generate a great deal of anxiety.

City Banks: The debate on system reform all started with the demand for increasing convenience. If the current share of ordinary profits of the financial world and ordinary profits of other industrial circles do not change, there probably will be talk that it is absurd to contribute to increasing the efficiency or convenience of the financial market.

In a sense, the financial world's piece of the pie probably will be distributed to the general industrial world. Debate is proceeding to consider how best to do that.

Consequently, isn't it wrong to go backward and debate on the contents of the financial world's cup?

I don't know if city banks are strong, but I believe that various banks are considerably dispersed in their methods although it is said they are making full use of their existing networks in pursuing individuality. City banks, which can develop all businesses, probably are in this category. Conversely, if you develop such a strategy, you might end up losing to financial institutions which are truly in an individual situation and have rather high expertise. Consequently, banks who do not have one strong business field will retreat from the competition. [passage omitted]

[KINYU ZAISEI JIJO] Opinion is divided even among city banks regarding proposal C.

City Banks: That is indeed true. It would not have been believed before. If it had been 5 years ago, everyone probably would approve wholeheartedly, but hasn't liberalization come to be perceived as less than desirable. That seems to be evident in the subtle differences in the strategy of individual institutions.

Life Insurance: From the point of the convenience of users, isn't Proposal C indeed targeted and most suitable to international use? If in a form like Proposal A where there is mutual overlap from wholesale to retail, a life insurance company with two branches in Tokyo and Osaka is no match for a city bank with 300 offices. [passage omitted] I believe that wholesale and retail is just such a world. Then in the market, people with 100 pounds, whether it be ORIX or Seibu, can achieve it responsibly with a separate company. However, the retail portion with its domestic Japanese sentiment remaining, will be left alone.

Looking at the data of the Financial System Research Council, the people are not troubled. Rather, there is a

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FBIS-EAS-89-140-S
24 July 1989

108

necessity for it to be in good order by the people of no nationality. I believe the concept of doing it in order is very easy to understand.

City Banks: I feel the same about the concept of doing reforms in order. In short, I am distressed by this being the final ideal form of the Japanese financial system and that this system will not change for all eternity. I believe it is necessary to evolve on to the next step.

Trusts: In fact, we are entering a casino with a pound and profiting. With 100 pounds, we are not profiting at all. (laughter) And yet, that financial institution is maintaining a strong constitution because it is merged. Can it really be done with just 100 pounds? Isn't it very limited?

Cut Down What Should Be Cut Down

[KINYU ZAISEI JIJO] The case for the securities side in the bank and securities separation is that the Financial System Research Council is investigating a review of the specialized financial institution system and is not reviewing the separation of bank and securities. What do you think of that?

City Banks: That is correct in pointing out that the specialized financial institution system itself must be reviewed. The issue is based on the need to create a financial system that should exist in a creditor nation. The issue has not been limited to that. In considering a review of the system, for example, there are inherent similarities to securities companies like long-term credit banks. From among such considerations, to detach securities you must first solve the issues among banks and as a next step, take the position that there are securities. You must consider a form in which they should exist within it as one set.

Long-term Credit Banks: It has been clear from the beginning from the trend of globalization or securitization that naturally all of it must be reviewed as a total package. Rather than reviewing the specialized financial institution system, from the outset there has been a review of banks and securities separation as the driving force. So long as that cannot come into view, I believe it is an urgent topic with the inadequacies self-evident.

Life Insurance: Royama has stated the opinion of desiring to undertake new products by conducting all forms of business. I believe that a two-pronged operation with the Securities and Exchange Council is needed in the securitization issue.

[KINYU ZAISEI JIJO] How do you see system reform proceeding in the future and in what form will it be settled?

Life Insurance: In the May interim report I made a plea for the need to reform. Since then, I believe that, if possible, a joint review of the system by the Financial System and Securities and Exchange Councils and the Insurance Council would be best.

[KINYU ZAISEI JIJO] What about the possibility of a joint sectional subcommittee?

Life Insurance: It depends on the way it is done. The political situation is unstable but with the resolution of the Finance Ministry, I believe it is not impossible for a joint committee of the three if it is for 1 or 2 years.

Trusts: I believe that is right as far as banks and securities are concerned. We have said that it should be debated at such an open forum. In reality, there are various business laws, financial world business laws and antitrust laws, and laws covering both sides such as the tax system. Such laws are complex and intertwined. Ultimately there also will be the issue of supervisory authority. If it is not widely discussed, you cannot put a jigsaw puzzle together with just a part. It should be done over time.

As far as trusts are concerned, we do not believe it is a problem at all. There has not been one outcry from users and internationally, it is not a field that must be done a certain way. I believe the trust business is best done by a specialized financial institution. As a matter of fact, foreign bank trusts are appearing in a number exceeding Japanese banks and the open door policy is adequate.

Long-term Credit Bank: Proposal A is similar in that the review itself is questioned from the beginning. Proposal E is too remote because of the relationship with the Securities and Exchange Council. Proposals B, C, and D can by no means put it in order. In particular, topics remain which must be investigated a little more such as the oligopoly issue, the issue of stability of the settlement of accounts system and reciprocal benefits, and also stability as a credit mechanism.

City Banks: I believe it is necessary to discuss it precisely in the Securities and Exchange Council also. Since there is a very big debate once in every 10 to 20 years, it should not be done in a very half-hearted form. I believe there is a portion which, with various considerations from the bank side and cutting down what should be cut down, bravely can be proposed to the Securities and Exchange Council. You ought to advocate what should be advocated and stir up a real debate.

So far there has just been an inattentive discussion which actually is a monologue in the form of a dialogue. It feels like there has been no discussion at all. Make it solidly clear and discuss it. It is not good to spend time with no purpose. Since the speed in reforming the free market is very fast, to do nothing bears the risk, on the one hand, of accelerating obsolescence. Fully recognizing that point, there should be a speedy debate.

When changing the system, problems will occur, and system reform, simply because the present system is oppressive is not desired. We are thinking of a form that should exist within a wide field of vision with a long-range view to the future. Even though bold reforms are incorporated within it, I believe we should do what is necessary if they stand in the future field of vision.

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FBIS-EAS-89-140-S
24 July 1989

109

*** Economy Heads for 'Golden Nineties'**
41060103 Tokyo CHUO KORON in Japanese
Apr 89 pp 160-169—FOR OFFICIAL USE ONLY

[Article by Yoshikazu Kano, managing director, National Economic Research Association: "A Shift From a Large-Scale Economic Boom to High-Speed Growth"]

[Text] A new growth mechanism is at work in the Japanese economy, sustaining the current economic expansion. Unless this favorable cyclic rhythm is destroyed by inflation, the nineties will be a period of rapid economic growth on a global scale.

Introduction

How long will this large-scale economic boom continue? A new mechanism of growth is at work in the Japanese economy. The current economic boom is equipped with all the conditions which can sustain a large-scale boom of unprecedented size, exceeding even that of the Izanagi Boom which buoyed the economy in the second half of the sixties. The Japanese economy, in my view, is on the launching pad of a "mammoth economy," which will propel Japan into a period of rapid growth throughout the nineties.

Corporation capital investment which leads the economy is no longer limited to investment in technological renovations. Instead, it is finally spreading into the sphere of expanding the capacity as governed by the acceleration principle. The mechanism in which "investment induces further investment" has begun. Contrary to some projections that the economy will begin to slow down in the second half of this year, it is likely to grow with a slight overheating due to a rapid expansion of demand.

The Japanese economy is now in a new phase. The focus of attention will probably shift to prices this year. Flexible application of fiscal and monetary policies is desired. Will the policy of fine tuning be successful? Is the strong yen the only hope? A large-scale boom of an unprecedented size can be enjoyed, if inflation is kept under control.

A rapid growth in the nineties will follow the current large-scale boom. The world economy in the nineties is bound to grow rapidly because of the effect of detente and a construction boom, following the privatization of infrastructures. The Japanese economy, too, will probably achieve a rapid growth of 5 to 7 percent since it will once more have as its key operational center, East Asia, which has become a global growth center.

The per capita GNP of Japan and that of the United States in the year 2000 are projected to be \$33,000 and \$23,000, respectively (in real terms of 1988 U.S. dollars). The income level of the Japanese will be nearly 50 percent higher than that of Americans. International relations will have to change in major ways.

The next 10 years will be characterized by rapid, not slow, growth. Isn't a review of long-range strategies in order in the government, labor unions and agricultural cooperatives?

Rapid Global Growth in the Nineties

The global economy is booming right now. But this is nothing but a precursor to the "Golden Nineties."

What caught my attention when I toured Europe and the United States last October was the fact that socialized capital, such as has been used in construction of bridges and tunnels, is beginning to be privatized in European countries, including in the Thatcher-led United Kingdom. Private enterprises now secure funds for the construction of these structures by themselves using their own technologies, as well as manage them by collecting tolls.

In the United States, privatization of airports is being studied. The last major airport constructed in the United States was the Dallas-Ft. Worth (Texas) airport built in 1973. The subsequent deregulation of the airline industry in 1978 has dramatically increased the demand for both passenger and cargo flights during the last decade. This made the airport capacity lag behind the rise in demand. If and when airports are privatized, private enterprises will probably build airports at locations all over the United States where profitable operations can be expected. This would create an airport construction boom in the United States in the nineties. The building and rebuilding of infrastructures has been postponed in every country over the past decade because of restrictions caused by budget deficits. Certain types of infrastructures, including bridges, roads, and airports, to which the rule of cost-sharing by beneficiaries can be easily applied, can be funded by the private sector. If the privatization technique is introduced on a large scale, the pent-up demand for infrastructures will all of a sudden explode and a global construction boom can be anticipated. The discovery of the technique called privatization will liberate the infrastructure formation from the shackles of budget deficits.

The global economy of the 1990's will probably grow at a fast pace due to five favorable factors.

First is the effect of detente. A strife-free period is foreseen for the 1990's. Led by the detente between the United States and Russia, regional conflicts will be eliminated as Russia withdraws its troops from Afghanistan and the Iran-Iraq war is ended. As a result, resources, which have been whittled away by military spending, will be channeled more into the productive economic sector. During a period of military expansion, all R&D efforts of a nation are directed at the development of new weapons which are superior to those of enemy countries. Consequently, the economic growth of the nation becomes restrained. The impact of detente will be substantial, as testified by the rapid growth of post-war Japan, which was unarmed.

FBIS-EAS-89-140-S
24 July 1989

110

The USSR, in particular, in the eighties adopted a system of drafting even university students in order to maintain a permanent force of nearly 6 million. Mr Keitaro Hasegawa states that the draft system affects an age group which is most capable of acquiring new knowledge, subjecting them to military service, with the result that engineers and researchers are developed more slowly than otherwise. Clearly, this is a negative factor for economic growth. The realization of detente will probably contribute greatly toward the vitalization of the Russian economy. Its breakaway from a wartime controlled economy is expected to make it a potential giant economic power in the world.

Second are factors which are activating the global economy, including the EC integration of 1992, perestroika in the USSR, the economic reform in China, and the East-West exchange which will follow.

It is a historical fact of the 1980's that the system of a planned economy lost out to a more liberal system. Russia will collapse if perestroika fails. Once a nation has moved in the direction of perestroika there is stopping the desire of the public for consumer goods. On the other hand, if Gorbachev's perestroika succeeds, the threat of Russia to the Western world will be diminished. A sip of the "fine wine of consumerism" and there is no going back. Because perestroika is beneficial to the security of the Western world, the West will continue to provide loans and economic assistance in support of Gorbachev. Russia will gain foreign currencies in this way and increase its import of consumer goods. The same holds true with China. A massive flow of trade will likely emerge between the East and the West. Moreover, the United States may consider Russia, the East bloc and China to be a new frontier in its own economic reconstruction.

Third, the emergence of the East Asian region should be mentioned. The region's high profitability in the industrial sector has attracted an increasing amount of direct investment by advanced nations. This is accelerating the economic growth of East Asia. Furthermore, within East Asia, direct investment of newly industrializing economic societies [NIES] in ASEAN countries is rising, allowing them to take off, one after another. What should be noted is the fact that the growth is coming not only from exports but also from domestic demand, evidencing these countries' entry into the stage of multiple-track economic growth.

There is a global consensus that East Asia will be the center of economic growth as we move toward the 21st century. The growth vitality of East Asia contributes substantially toward the expanded equilibrium of the global economy. The size of East Asian imports is already rising. The rapid growth of East Asia means the emergence of a massive market for advanced nations' goods and services, including capital goods.

Some are concerned that the global economy is segregated into blocs. However, the loss of the attractive East

Asian market would severely damage the EC, the United States, and Canada. The development of East Asia as a growth center with its open arms held out to the world will likely curb the tendency for the world to be divided into blocs.

Fourth is the effect of the privatization and deregulation mentioned earlier. The effects of privatization are not limited to the formation of infrastructures. In Japan, for example, the privatization of Nippon Telegraph and Telephone [NTT] Public Corporation (and the concurrent liberalization of the telecommunications market) led to the development of new media, and the information industries, such as VAN [value added network] services, bloomed. Privatization and deregulation encouraged the birth of new leading industries and created new demands. In fact, the new entrants to the telecommunications industry (which mean all telecommunications concerns except for NTT and KDD [Kokusai Densin Denwa Co., Ltd.]) cumulatively spent about 1 trillion yen between 1985 and 1987 for capital investment and created about 80,000 jobs.

To create effective demand, not only were traditional budget and monetary policies employed but a new policy tool for deregulation was also discovered. "From budgetary reliance to deregulation" is the new guiding principle of future economic management. Privatization and deregulation are global trends and are believed to contribute toward the global economic growth of the 1990's. (Refer to my article in the January 1989 issue of the CHUO KORON.)

Fifth is technological renovation; the wave of the information and electronics revolution will engulf the world. The progress of microelectronics technologies will encourage new types of businesses and thoroughly reconstruct the technological foundation of any industry. Japan is leading the way in developing leading technologies and finding practical applications for them. The world is about to enter a revolutionary era.

As seen, the nineties are expected to be a period of major change on a global scale. The acceleration of economic growth and increased opportunities for technological innovations will likely trigger dynamic new global industrialization. The eighties, with their aftereffects of energy crises, ongoing military expansion, and incessant regional strife, should be looked at as an unusual period. The end of the 20th century will not be gloomy.

East Asia the Source of Japan's Growth

Helped by such favorable winds as the revitalization of the global economy, expansion of trade and cultural exchange between the East and the West, and the rise of East Asia, the rate of growth of global trade will also rise. The annual average growth rate of global trade (based on the volume of exports), which registered 8 percent in the sixties, 6 percent in the seventies, and 4 percent in the eighties (6.5 percent in the second half), may climb to 10 percent in the nineties.

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FBIS-EAS-89-140-S
24 July 1989

111

What will be Japan's position in such worldwide rapid economic growth? And how will the Japanese industrial society transform itself? The explosive growth of East Asia will likely have a highly significant effect on the Japanese economy.

East-West exchanges will become more active in the nineties. A huge flow of goods will probably take place between the East and the West. Russia will import such consumer goods as home electric appliances. However, they will not want luxury goods made in Japan. Asian NIE's and ASEAN countries will probably become the major source of consumer goods exports to Russia and China. The large populations of Russia and China will likely make this flow of goods between the East and the West gigantic once these countries embrace the lifestyle of consumerism.

Here is one hypothesis. The advanced nations of the Western world will provide loans to the countries of the Eastern bloc and allow them to acquire purchasing power. This, in effect, will create a market. In the meantime, corporations of the advanced Western nations will make direct investment in Asian NIES and ASEAN countries so that these countries develop supply capabilities. Thus, a mechanism of new growth for the multinationals of the Western world is set in place.

However, the supply capacity of Asian NIES and ASEAN countries is limited. The aggregated GNP of the nine East Asian countries amounts to only one-fifth of Japan's. (Even if East Asia grows at an annual rate of 7 percent, its GNP will be half Japan's in the year 2000.) A pattern of growth led by domestic demand is beginning to be seen in these countries. If they produce for their domestic markets, and then begin to make more for exporting to Russia and China, they will have a limited capacity for exporting to the Western advanced nations. This seems to imply that Japan will continue to dominate the market for luxury goods in advanced nations of the West.

When that happens, production by Japanese corporations within Europe and America will naturally increase to augment exports from Japan. In any event, there will be a strong demand for Japanese goods. Exports of goods will probably continue to grow at a fast pace during the nineties. When global trade grows, Japanese exports tend to grow.

The horizontal division of work with East Asia will help the Japanese economy to prosper. If the industrial production capacity and exports of Asian NIES rise, Japanese exports will also grow. Taking advantage of their cheap labor, these countries will probably aggressively sell their consumer goods all over the world. However, they will have to purchase facilities and machinery, as well as parts and raw materials, from Japan in order for them to manufacture consumer goods. Although Japan and the NIE's are competitors in certain aspects of trade,

they are also in a highly complementary relationship. As a result, Japanese exports will leap with the rapid growth of East Asia.

In the long run, NIES will probably grow as exporters of consumer and intermediate goods, while Japan will grow as the supply base of capital goods. This horizontal division of work will allow the Japanese industrial structure to become even more sophisticated.

Furthermore, the catching up of East Asia means an increase in the human resources required for the growth of the Japanese economy. Low wages available in Asian NIES and ASEAN countries are attractive to Japanese corporations. Japanese corporations intent on globalization will be able to use these countries as key production points if their technological competency improves. (Low wages mean little if these countries continue to have only crude technologies and produce low-quality goods.) From the perspective of Japanese corporations, technological improvement of Asian NIES and ASEAN countries means an increase in the number of "profit sources." It can also be viewed as an expansion of the market radius for the Japanese economy.

Japan's rapid economic growth in the fifties was led by the industrial development of the Pacific megalopolis. What underpinned this growth was the inflow of labor from the hinterlands of agricultural villages. Agricultural villages also played a major role as a consumer market. The Japanese economy definitely will be one which will be constrained by an acute shortage of labor. However, the growth constraints resulting from the labor bottleneck will be alleviated if the horizontal division of labor with East Asia is increased. Japan will have the great good luck of having the rising East Asian countries as its hinterland. Moreover, the rate of growth of the Japanese economy is expected to rise as the global economy enters another period of rapid growth. The rate of Japanese GNP growth may accelerate to between 5 and 7 percent.

Japan's exports will not slacken. As a country which energetically makes capital investment and improves its supply capacity, Japan is probably in the best possible position. In addition, the confidence of the world in made-in-Japan products is strong, generating a substantial demand for these products. The forces which push for further growth will probably continue to be applied to Japan's exports, sustaining Japan's position as the "world's factory."

For a while, the "hollowing out of industry" was strongly feared. However, the industrial power of Japan is strong. There will be no hollowing out. "Spread of software" and "post-industrialization" were also talked about. The "spread of software" was thought by all to be a continuing trend. However, the sagging of the manufacturing industry was an unusual and temporary situation which was observed in one period of the eighties. Today, the resurgence of industries which manufacture goods is phenomenal. This does not mean that they are making the same goods. Products are more individualized and of

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FBIS-EAS-89-140-S
24 July 1989

112

higher quality. With computers playing a central role, production processes have changed as process innovations have made an inroad. New concepts, such as "new manufacturing" and "new hardware," have burst forth as well. "Increased use of software in the post-industrialization era" will probably be the image of future Japanese industry. It will be an age of new industrialism. With the vitalization of the global economy as a background, the nineties will usher in a golden age of the Japanese economy.

New Growth Mechanism

The Japanese economy is booming. Two years ago, I forecast a large-scale economic boom for the following 3 years. In fact, the economy is in full blossom. Corporate earnings have risen 20 to 30 percent for two consecutive years. In the labor market, the unemployment rate has dropped to 2.3 percent. The boom has spread to all companies, even to those in regional areas. The boom is no longer limited to the metropolitan Tokyo area. The term "large-scale economic boom," which was not received with much enthusiasm at first, has become accepted.

How long will this unprecedented boom continue? Those who adhere to cyclic theories predict an economic slowdown later this year, now that the economy has expanded for 2 years. I take the opposite view. I project a large-scale boom of an unseen size.

Above all, it is necessary to correct established views. First, the U.S. economy is very likely to become soft. Because the mode of the economic expansion has shifted from one guided by fiscal policies to one led by the soft dollar-induced exports, the twin deficit problem has clearly peaked. The ratio of budget deficit to the GNP has declined to 3 percent in fiscal 1988 from 5 percent in fiscal 1986. If the flexible freeze is effected, the budget deficit will diminish even in the absence of a tax increase and pension account surpluses will keep rising. By 1993, the ratio should drop to about 1 percent. There will be no problem if the ratio to GNP keeps dropping.

Trade deficits are also declining. The deficit of the trade account stood at \$137.3 billion in 1988, an improvement of \$33 billion over the preceding year. It was a result of the 27 percent growth of exports over a year earlier—an impact of the softened dollar subsequent to the Plaza Agreement of September 1985. The continued high level of imports is a problem. But it is tied to exports. An export-led economic expansion has created a boom of capital spending and personal consumption. The high level of imports is necessitated by this boom. Should exports slow down, imports will fall in response. Thus, there is no longer any danger of a runaway trade deficit.

The possibility of the dollar taking a plunge is small, too. There is no longer the need in the U.S. economy for the dollar to depreciate. Until a year ago, the low utilization rate meant that a cheaper dollar would induce such benefits as higher imports and an improved trade deficit.

However, U.S. industry is running almost at full employment today. Any further depreciation of the dollar cannot be expected to generate a substantial increase in exports. Should exports increase, excessive demand will trigger inflation. Thus, the current situation lacks any policy incentives for the dollar's downturn.

People should break away from a rigid view that the twin deficit will inevitably induce a crash. By transforming itself to an export-driven type, the U.S. economy can make a soft landing even without massive and rapid deficit reductions achieved with higher taxes.

Secondly, a change has occurred in the Japanese domestic scene as well. The revival of labor shortage is a case in point. Until just a couple of years ago, we were frightened of the prospect of wide-spread unemployment. However, the unemployment rate has dropped to 2.3 percent while the effective ratio of jobs to available applicants has gone up to 1:2. Some industries are unable to fill job openings. It was an almost overnight change.

When all is said and done, it is evident that the Japanese economy, as well as the U.S. economy, has moved into a new phase. However, theories built on the realities of a couple of years ago are used to analyze the current situation. A switch seems to be in order.

I predict that the current economic boom will continue for an extensive period of time. This is because a new growth mechanism is at work in the Japanese economy.

First evidence of this is the rise in the autonomous growth capabilities of the private sector, as seen in the growth of private-sector capital spending and personal consumption. The condition of "investment fueling further investment" has begun to be generated.

Secondly, the exogenous sectors, such as exports and budget, are shifting into an expansive balance. Export corporations have adapted well to the exchange rate of 120 yen to a dollar, and exports are rising rather than declining. A balanced exchange rate at present is said to be about 110 yen to a dollar. The budget deficit is shrinking rapidly as automatic revenue increases of 5 to 6 trillion yen per year have resulted from the economic recovery. The stabilizer function is working. A consumption tax has also been adopted. Today, flexible budget management has become possible. There is little chance that sagging exports and a negative budgetary ceiling will pull the economy backward. Instead, both these factors are providing buoyancy to the economy.

Third, the yen's appreciation is keeping prices in check. As long as the autonomous expansion power of the private sector is strong and the exogenous sector is in a balanced expansion, effective demand grows in a stable fashion. If this situation lasts, inflation ordinarily starts. However, the prospect of inflation is small at present because the rising yen is keeping prices under control. Given the high economic ceiling, there should be no

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FBIS-EAS-89-148-S
24 July 1989

113

concern for tightening in the immediate future. Therefore, a mechanism for economic contraction is not present right now.

The Japanese economy has strong potential pressures for growth. For this reason, economic contractions have traditionally been seen only when policy reins were tightened or exports dipped. Because neither is expected in the current expansion round, the boom is not likely to bust. A large-scale boom is thus anticipated to continue. There is, however, a possibility that the rapid expansion of demand between the second half of this year and next year may bring the economy to a turning point.

Into a World Dictated by the Rule of Acceleration

A long-lasting economic expansion, comparable to or surpassing the "Izanagi Boom," is likely to be seen. Against the backdrop of a global shortage of goods, a period of full-scale capital investment for capacity expansion is about to be reopened. The world is in the midst of a construction boom. In downtown sections of major cities, such as London and New York, many low and medium-rise buildings are being rebuilt into skyscrapers. Old harbor facilities are being demolished for redevelopment. The same is true in Tokyo. The demand for reconstruction of office buildings is fueled not only by the shortage of new construction sites, but also the need for work to remodel the interior making them into "intelligent buildings" so that they can accommodate leading edge information equipment. In other words, as parts of the backdrop to today's construction boom there are the switch to "intelligent buildings" to cope with the information revolution, and the water front redevelopment in response to the transformation of industrial structures.

A boom is also being created in consumption. The United States keeps consuming at the expense of a lower household savings ratio, which now stands slightly above 3 percent. A consumption boom has also started in the United Kingdom where the economy now seems to be slightly overheating. The British Government has attempted to cope with this situation by raising the discount rate nearly 10 times over the past year. Japan has been in a consumption boom for the past 2 years.

As for Japan, a transformation to a new consumption style in pursuit of affluence lies behind this boom.

Helped by a large accumulation of assets and rapid income growth, personal consumption has shifted into a new stage characterized by individualization, diversification and better quality. Cars are selling like hot cakes. The higher their value, the better their sales. In terms of growth over a year ago, sales of large and medium-sized cars have increased by as much as nearly 40 percent while sales of subcompact cars (such as Sunny and Corolla) have been up only 2 to 3 percent and compacts (such as Blue Bird and Corona) by 1 to 2 percent. The larger the car, the higher its sales.

As seen, effective demand has grown considerably as the result of an increase in investment in construction and personal consumption. The depth of asset accumulation means the existence of a "large reservoir" of consumer demand. On the other hand, personal consumption will be sustained because the new type of consumption in pursuit of affluence has only barely taken off. The majority of investment in construction is in "development projects." With the expected addition of resort development, the investment will continue to rise. Both personal consumption and construction investment are likely to expand over the medium term. In comparison, the supply capacity is not likely to be able to catch up with this.

Japan's domestic demand for automobiles in fiscal 1988 is estimated to have reached about 6.6 million units. It appears certain that the demand will reach 7 million units in Fiscal 1989. However, a long-term forecast made by the industry before this boom began projected less than 6 million units. If manufacturers have built up their factory capacity based on this long-term forecast, their supply will not be able to meet the actual demand in time.

In the past several years, automobile manufacturers have invested in new product development, R&D [research and development], and improvement of their distribution channels. However, they have not invested in capacity expansion. Because the manufacture of some subcompacts currently exported to the United States, such as Nissan's Sunny and Mazda's Capella, will be moved to the United States this year, their domestic factories will become available. The manufacturers will thus be able to increase their production of luxury cars in those factories this year. If strong demand lasts into 1990, all companies will probably decide to invest in capacity expansion.

The situation is the same in the raw materials industries. In the petrochemical industry, the current capacity for the production of ethylene is 5.5 million tons. Demand for ethylene is surging with the drop in crude oil prices. The demand reached 5.05 million tons in 1988 and is expected to exceed 5.5 million tons. If a stability is foreseen in the crude oil market, a strong possibility of joint capital investment by several companies exists. In fact, at Yokkaichi industrial complex a plan for the construction of a 300,000-ton ethylene plant was announced this year, followed by another announcement of a plan to build a 500,000-ton plant at Chiba industrial complex.

The export price of steel has gone up by a whopping \$100 per ton, due to the tight supply worldwide. The worldwide production of crude steel grew by 40 million tons in 1988 over the previous year, to 780 million tons. A further increase up to 50 million tons can be met with a rise in the supply capacity of newly emerging nations. However, an increase of 100 million tons would be a different story. Only Japan and Brazil are capable of coping with that much increase. When we consider the global construction boom, an increase of 100 million

FBIS-EAS-89-140-S
24 July 1989

114

tons over a 2-year period can be expected. If Japan fails to respond, the world will be in danger of a steel shortage.

Regarding capital investment by Japan's steel industry, a quick decision is not possible in the matter of construction of new blast furnaces or additions to existing ones. However, investment in capacity expansion can be expected in high-grade steel, demand for which is surging, and in the production of rolling steel panels.

As seen, the excess supply capacity is dwindling as the result of a rebound of demand. A global shortage of goods is approaching. On the other hand, investment in capacity expansion has been restrained. The balance between supply and demand is quickly tightening in the goods market. The temperature of the capital investment environment is gradually rising and nearing the "critical point." Capital investment by heavy industry is about to take off.

Certainly, small industries, with small investments, have invested in capacity expansion over the past 2 years. However, investment in capacity expansion is only beginning in the conventional key industries, those industries with huge investment capacity and long pay-out periods. The world is entering a period of goods shortage right now. A new phase of full-scale investment in capacity expansion is approaching. This is the kind of information needed to consider the economy which lies ahead. (See my article in the 3 January 1989 issue of THE ECONOMIST.)

Of course, the current situation differs, in certain aspects, from the rapid growth period of the 1960's. Because the Japanese economy has become more globalized, not all of the increase in demand needs to be supplied by stepped-up domestic production. Part of the rise in demand can be met with production in foreign countries through direct investment and higher imports from East Asia, which has caught up technologically. Conversely, however, supply from foreign sources cannot be depended upon to satisfy all of the increase in domestic demand. It would be more reasonable to assume that capital investment will be restarted in Japan, if the demand-supply balance tightens.

Danger of Too Much Money Chasing Too Few Goods

What is supporting the private-sector capital investment is investment by the nonmanufacturing industries, particularly various development products such as urban redevelopment, regional development, and waterfront development. These development projects require long investment periods. Construction companies are still receiving orders for new products to be used in these areas. Investment in development projects is therefore likely to continue for several more years.

Capital investment by the manufacturing industry has grown over the past 2 years, mainly in the area of technological innovations. The investment, however, has been made gingerly as entrepreneurs are not yet certain how long this large-scale economic boom is going

to last. Furthermore, investment in capacity expansion has been limited. If the current boom continues for 6 more months, entrepreneurs' expectations of the future will change and full-scale capital investment will probably commence once again, against the backdrop of a global shortage of goods. The type of investment will change from one in technological innovations to an investment in capacity increase. We will soon be in a world dictated by the acceleration principle. So far, the mainstay investment has been in technological innovations. From now on, an increase in demand will induce capital investment (which is called the acceleration principle). Finally, we will be in an environment in which "investment generates more investment."

Economic views can be broken down to bullish and bearish ones. If the economy now slows down after this summer, an economic turning point projected by the bears, while the optimism about the 1990's settles in (which is expected), expectations of entrepreneurs will be revised in a major way so that investment in capacity expansion will start. A full-scale expansion of private-sector capital investment will be ignited between the second half of 1989 and 1990.

This will bring the focus of attention to prices. Capital investment generates two-sided effects—a demand effect and a supply effect. Completion of a factory, resulting from capital investment, will increase the supply capacity. On the other hand, machinery, cement, and steel used during the construction of the factory generates demand. There is thus a time lag. Initially a demand effect emerges. A boom of capital investment, added to the consumption and construction booms, will bring demand sharply up. On the other hand, the increase in the supply capacity will not be here for some time. Will there be a danger of inflation caused by excessive demand? (What I fear is demand-pull inflation rather than cost-push inflation feared by the Bank of Japan and others.)

Undoubtedly, imports from foreign countries have become a source of supply since the yen appreciated following the Plaza Agreement. There exists a price restraining mechanism which allow imports to rise when domestic prices begin to climb. However, would prices be adequately controlled by imports alone if domestic demand suddenly bulged while the global supply-demand balance was already tight?

"A money surplus" is a global phenomenon. The investment boom in construction and facilities is a reflection of this phenomenon. On the other hand, there is a danger of a temporary goods shortage. The coexistence of too much money and too few goods means that the ammunition for inflation is being built up.

Over the last few years, surplus funds have been channeled into the stock market and speculative investment in land. The goods market has been left undisturbed. However, excess funds will be moved into the goods

FBIS-EAS-89-140-S
24 July 1989

115

market for investment in inventories, as soon as prices begin to show signs of rising and inflation is forecast. That will be worrisome.

Fine-Tuning Policies Desired

Flexible application of fiscal and monetary policies is desired in order to keep inflation expectations from cropping up. Would fine-tuning policies early on be successful?

Japan's exports have begun to rise again and the trade surplus has not gone down. Japan has a difficult time raising its interest rate when it is positioned as the funds supplier of the world. Moreover, if Japan, of all the countries of the world, begins to raise its interest rate, the world will be in a race toward higher interest rates, creating an atmosphere for global economic deflation. Thus, the discretionary latitude of monetary policies is not so wide.

At the same time, we are in a period in which fiscal constraints are not easily exercised. In the past, a large budget deficit provided a pretext of financial difficulty in restraining expenditures. However, an automatic increase in tax revenues of 5 to 6 trillion yen is beginning to be collected and the fiscal reconstruction goal of "no more government bond issues to finance deficits after 1990" has been almost attained. A consumption tax has also been enacted. Funds are available. Given this situation, a budget appropriation is about to be made. The start of work on the consolidation and construction of new bullet trains is a precursor of this war. In this phase, when fiscal constraints should be exercised, fiscal reins have become loosened, creating a danger that expenditures will become bloated.

Undoubtedly, a strong yen is our hope. However, it is important to abide by fiscal modesty in order to be sure to control inflation. The determination of an approximate ceiling on the fiscal 1990 budget, which will be deliberated on this summer, will have to be monitored carefully. A path of economic expansion, led by private-sector demand, has now been firmly laid out in Japan. Fiscal policies have no role to play as economic incentives. From the perspective of international cooperation, it is desirable to control inflation and sustain the pattern of growth driven by domestic demand. We can only hope that no mistakes will be made in fiscal management.

A new growth mechanism is at play in the Japanese economy, allowing it to enjoy a long-sustained expansion. Unless inflation destroys this favorable cyclic rhythm, Japan may be able to continue its way toward rapid global growth. This would mean that rapid growth will follow on the heels of the large-scale economic boom. The dynamism of new industrialization and the large-scale economic boom are forerunners of the dynamic future image of the Japanese economy in the nineties. The next 10 years will probably be a golden age for the Japanese economy.

LDP, Keidanren To Work Together on Reforms
OW2506003189 Tokyo THE JAPAN TIMES
in English 24 Jun 89 p 1—FOR OFFICIAL USE ONLY

[Text] The Liberal-Democratic Party (LDP) and the Federation of Economic Organizations (Keidanren) agreed Friday that they should work together for political reform.

The two sides confirmed their resolve at a meeting between LDP leaders, including Prime Minister Sosuke Uno, and 22 members of the federation.

The meeting was held because both sides felt the need to exchange opinions to find a solution to the current crisis facing the ruling party in the wake of the Recruit scandal, a Keidanren spokesman said.

Keidanren Chairman Eishiro Saito said in an opening speech that LDP leaders should overcome the citizenry's apathy toward the party and the government by achieving reform under Masayoshi Ito, head of the party's recently inaugurated task force on reform.

Saito expressed his continued support for the LDP, saying it is the only party that can maintain democracy and a free economy.

Prime Minister Uno promised that he will "achieve political reform by praying to heaven and bowing to the ground," according to Keidanren.

Ito said the enthusiasm for political reform within the party seems to be cooling down. He cited as dampeners the resignation of Noboru Takeshita as prime minister and a reform proposal put forward by an ad hoc LDP committee.

He was quoted as saying dissolution of the factions within the LDP, a reallocation of Diet seats and reform of the election system are necessary to prevent the recurrence of a scandal like Recruit.

Ito said he would like to see political reform completed by October, when the Diet celebrates its centennial.

*** Bank Official Analyzes Economic Prosperity**
41060110 Tokyo SHUKAN TOYO KEIZAI in Japanese
22 Apr 89 pp 104-114—FOR OFFICIAL USE ONLY

[Article by Tokai Bank Operations and Research Department Chief Kenji Mizutani: "Japan's Economic Prosperity Nearing Its Limit"]

[Excerpts] Precis

There is often a crisis even in such a booming economic environment as Japan's which has achieved an economic performance unrivaled in the world, without the fear of inflation that exists in the United States and Europe, and the anxiety of an economic recession linked to high interest rates. Few people clearly recognize the danger lurking in such a booming economy.

FBIS-EAS-89-140-S
24 July 1989

116

The impetus behind the current excellent world economic situation is U.S. demand, which is a continuing force in the increase of imports even though borrowed funds from overseas must be used. People have criticized and cast aspersions on this U.S. debt, and the United States is currently being forced to reform its lifestyle as a borrower. However, debt reliance is also built into the Japanese economy, which seems, at a glance, to be in good shape. An increased domestic demand for public projects and reduced taxes has caused the economy to rise. However, the source of this wealth has come from government debt like the issuance of government bonds. Hence, the underside of this good situation is that the accumulation of government bond balances will not stop and the burden for future generations will be heavy. We must not misread the future of our nation by being intoxicated with the idea of eternal prosperity. Therefore, this is a "decisive moment" for Japan as well as the United States.

The economy is in excellent shape. It is good because companies are making profits. In fact, corporate profits have increased sharply.

These profits are a result of rising sales. Usually, when economic times are good, the growth rate of profits is greater than the growth rate of sales. For example, let us look at the previous economic boom or the one before that one. The increase in profits was two to three times greater than the increase in sales.

That situation is even more pronounced this time. The increase in profits is even greater than the increase in sales, and the feeling of a strong economic climate is even more pronounced.

The reason the profit growth rate is greater than the sales growth rate is because the corporations have been proceeding with fundamental rationalization. This is difficult to discern since this cannot be represented in numerical values. However, rationalization has been proceeding furiously within corporations over the past 3 to 4 years. If we turn around and look at the situation 4 years ago, we find that virtually no companies are doing now what they were doing then. At that time, the companies were holding on for their very lives.

However, when we view this from the present, I think that work at that time was being undertaken with some margin to spare and was carried out comfortably. All the corporations spared no waste and made every effort to increase productivity. That, I believe, is the basis for the excellent shape we are in.

The strong yen surged during this period. In contrast to 4 years ago when \$1 dollar was worth 250 yen, the price of the dollar has virtually dropped by half. Thanks to this, the price of the raw materials that we import from overseas has dropped greatly. Even when sales do not increase, if the price of raw materials is a lot cheaper, that alone will produce a profit. One can easily imagine that the positive side of the strong yen is a factor behind today's economic boom.

This fact operates conversely for exporters. When one makes the same product in the same way and exports it at the same dollar price, sales will decline by half when converted into yen. No matter what the product, the sales value will be cut in half, and it appears that nothing can be done. This makes it evident that overseas sales will decline and production from export-related industries will drop off.

When production declines, the number of employees at every plant will have to be reduced. The amount of available raw materials should be carefully monitored at the same time. This will further lower the production of the plants supplying raw materials, and another reduction of the work force will be urged.

In this way, production declines in every related industry, reducing the need for workers and increasing unemployment.

Unemployed persons have no economic buying power. As a result, domestic demand will decline further. In other words, a decline in overseas sales is linked to a decline in domestic sales. That will create yet another layer of surplus workers and bring on further unemployment. In this fashion, the economy goes through cyclic decline, and a recession caused by the strong yen develops.

However, that situation did not last long this time. Before long, exports stopped dropping and lately, they have increased close to 10 percent when compared with a year ago. During that time a severe economic rationalization, concentrating on the export industries, was carried out.

That rationalization involved not only export industries, but many parts plants also cooperated. This has not been completely pleasant. Rather, there has been a mutual shedding of tears. In that sense, it can be said that the results of the efforts of people in all related industries (in other words, in every field in Japan) have brought about today's prosperity.

The Consumer Spending and Capital Investment Cycle

Sales are increasing in every field, and consumer purchases have finally increased.

Nowadays consumers buy expensive items. To state it accurately, these are times when a product will sell if it is good even if the price is high. We are now in an era in which a new product will sell, even at a high price, as long as it is of good quality, good performance, good design, and fashionable.

In fact, high-priced goods sell in large quantities. This demonstrates that consumers have money. The source of the consumers' wealth is salaries. The raising of the base wage is the prime reason for the rise in salaries. The spring labor offensive is behind this. Last year's spring offensive raise was 4.43 percent, which was nearly 1 percent higher than 1987's 3.56 percent.

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FBIS-EAS-89-140-S
24 July 1989

117

Bonus payments have also increased. A considerable bonus was paid out at the end of 1988.

Nowadays people are busy. Overtime has increased, and overtime wages are being paid. This means even greater consumption. A cycle has emerged with the continuous production and sale of goods and this results in increased overtime.

This year's spring offensive raise will probably be higher than last year's. The wage level for our nation is remarkably high when viewed in an international context, and the good economic situation we are in would undoubtedly deteriorate were business to decline all of a sudden. In an era of internationalization, we will be competing with foreign countries. There is concern that, at that time, the high wage level will become a severe problem from the standpoint of business management.

Nevertheless, if corporate performance is actually this good, it would be unreasonable to accept a spring offensive raise lower than last year's. A bright spring offensive can be anticipated.

The summer bonus picture also looks bright since it will reflect corporate earnings. If people's desires expand, then the climate for consumer growth will continue.

When the economy begins to expand the business climate improves and capital investment plays a big role. Firms must develop new products. The belief is that if new machines are produced, industry will purchase them to increase productivity. It is also important to the customers that the stores be made attractive.

When earnings are good, as they are nowadays, and the strategy is clear as to which course to take, then the desire of a firm to invest is naturally quite high. Small and medium-sized firms that are quick to start up will have completed a first round of investment and will be starting a second round. Large firms that are slow to move will also get off the ground. Then machines will be sold, construction will flourish, and the economy will continue to grow. [passage omitted]

For the time being capital investment is continuing so the economic climate continues to be good.

Two Factors Causing the Booming Economy

The foundation of today's booming economic situation is undoubtedly the efforts of the people. However, even that alone cannot be considered the cause of such a boom.

When the strong yen recession began and the economy began to decline, we demanded that the government take bold economic recovery measures, and the newspapers and the journals demanded with one voice that the government initiate forceful economic promotion policies. The government, responding to that, implemented emergency economic measures. That was in the fall of 1986.

The economy, which had continued to fall sharply up to then, seemed to bottom out. The government continued on a course of working out a comprehensive economic policy to the tune of 6 trillion yen. Around that summer, the economy all of a sudden reversed course and improved.

These economic promotion policies were fiscal measures centered around an increase in public investment, and, at the end of 1987, a large tax cut was carried out as part of these policies.

Private enterprise produced more goods because of increased investment. Materials such as cement and steel became necessary. Demand increased, products sold, production increased, and the economy heated up considerably. Today there are still many examples of economic improvement because of such public investment.

It is well known that the tax cut was good for the economy. For example, because of the 1987 tax cut, a considerable amount of cash was paid directly to everyone in the form of a year-end adjustment. The money was transferred over a period at the end of the year and was spent in 1988. If people's desires are stimulated by a tax cut, consumption will take place and products will sell. If products are sold, corporate sales will increase, and this means an economic boom.

The model for this economic policy is the large tax cut which was a part of former U.S. President Reagan's program. The U.S. economy, which had been sluggish up to then, expanded all of a sudden, and the power of such a policy is already proof of this.

If the fiscal budget has a deficit, it can be used to invigorate the economy. [passage omitted]

Japan is not the only country whose economy is in excellent shape. Southeast Asia, where the economic climate was in decline for a time, is today in excellent shape. Europe, whose economy had been sluggish, recovered last year and seems to be overheated today. This economic boom is worldwide in scope.

Exports are doing well in every country, and this has helped improve domestic economies. The United States continues to import in large volumes. Thanks to this the exports of every country have increased, their domestic business climates have risen, imports have mutually increased, and the worldwide economy has expanded.

When the United States, which is the greatest economic power in the world, increases its imports, this has an impact on the world. Judging from the trade structure of the United States, its imports from Latin America are great. The reasons that the problem of nations accumulating debt, which emerged 7 years ago, has not been more severe is because the United States has been importing in large volumes.

More than one-third of Japan's exports head toward the United States. The United States continues to import in large volumes from Southeast Asia, and not just from

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FBIS-EAS-89-140-S
24 July 1989

118

Japan alone. That does not mean that Southeast Asia manufactures everything all by itself. It imports partly from Japan, assembles them, and exports to the United States.

About 20 percent of all of Japan's exports go to Southeast Asia, and those are exported to the United States via Southeast Asia.

Other countries of the world are also in a similar situation. The fact that the United States continues to import in large volumes is expected to contribute greatly to Japan's economy.

Every country desires foreign goods. However, every country can only buy using the amount it earns from exports. It can best be said that exporting is inevitable in order to import. As a result, balancing exports and imports is natural. However, the United States has destroyed that balance and continues to run up a huge deficit.

The United States Trade Deficit Exceeds the Limits

Let us take a look at the international balance of payments of the postwar United States through the current account balance. There was a time when the United States maintained an enormous surplus, but it sank into a deficit from time to time. The size of the surplus and deficit over a number of years undulated between a surplus of \$7.1 billion and a deficit of \$5.8 billion.

The limit of the surplus was broken twice. The first time was in 1947, just 2 years after World War II. Both Europe and Japan were unable to manufacture goods because of the damage of the war. The United States took their place and earned money by exporting to the world. And in addition, the U.S. surplus was an extremely high \$9 billion because it did not import from the world.

Because the United States accumulated the world's wealth, wealth disappeared in the world, and the dollar shortage became a problem.

The one other exception was 1975. The U.S. surplus was at a high of \$18.1 billion. This record has not been broken since.

A large deficit appeared in 1977 as a reaction to the large surplus. This deficit was \$14.5 billion. Moreover, the deficit continued in 1978, and became a bigger deficit of \$15.4 billion.

By making payments overseas of just the deficit, a large volume of dollars was sold to every country in the world, and the dollar crashed. In December 1976, \$1 was worth 296 yen, but this subsequently continued to decline each month, and fell to 176 yen by the end of October 1978.

This meant that for the United States the \$15 billion annual deficit was extremely high, and it was so great as to have a sharp impact on the world at large.

Japan's export industries received a great shock because the dollar crashed. If the dollar had remained so cheap, the export industries would have encountered a major crisis. Europe was in an identical situation. The countries of the world sought a correction from the United States. However, the United States trusted that the circumstances would change the situation and took no action.

At the final stage, President Carter did an 180 degree about-face in terms of policy. The situation changed rapidly because of the dollar defense declaration. The current accounts balance of the United States quickly diminished, and was transformed into a slight surplus in 1980.

Subsequently, the international balance of payments of the United States worsened again, and that is tied to the current huge deficit. In 1983, the U.S. deficit expanded to a grand total of \$45.2 billion. This was a previously unheard of deficit. In 1984, the deficit doubled and reached \$107.1 billion. With this the first 100 billion dollar deficit barrier was broken. When the deficit reached \$154 billion in 1987 after continuing to grow, it got out of hand. In 1988, that shrunk to \$135.3 billion, and although there was joy, the deficit continued to break through the \$100 billion barrier.

The United States still had lots of money. At the end of 1981, the net foreign investment had reached its zenith and amounted to \$141.1 billion in cash.

However, the cash held by the United States diminished rapidly because it was being spent. At the end of 1983, the cash held by the United States had declined rapidly to \$89.4 billion. The United States, at that time, still held enough money to be the world leader. That figure declined to \$3.5 billion in 1984, and was soon close of zero.

As a result of subsequently using money in large amounts, the United States was transformed into a net debtor nation, with debts worth \$110.7 billion by the end of 1985. There are many net debtor countries in the world, but only the United States has a debt exceeding \$100 billion. In other words, the country with the most money in the world had turned into the world's greatest net debtor nation in a mere 2 years.

Moreover, the subsequent rate of decline accelerated. The net liabilities of the United States by the end of 1988 came close to \$500 billion.

If things continue in this way, the debt will increase, and, along with that, the interest payments will increase. In the future, the United States will have no choice but to rely on borrowing to make huge interest payments. And as the debt increases, the interest burden will become even greater. This situation cannot continue forever.

When money is spent and used up, there is a deficit ceiling beyond which money cannot be spent. However, wealthy countries like the United States which possess

FBIS-EAS-89-140-S
24 July 1989

119

other assets, will not suffer even though they have no money. This is because the entire world, beginning with Japan, will lend them money.

Americans subsist by borrowing large amounts of capital from the rest of the world. Escaping from the practice of borrowing is difficult. As long as there is capital to be borrowed, the United States will continue to borrow. Only creditors can prevent that. If the world, beginning with Japan, continues to lend money to the United States, then this situation will continue. However, it is possible that things will change suddenly when the United States exceeds its limit.

Dealing With the Bankruptcy of the United States Economy

There are quite a number of countries in the world whose international balance of payments continues to deteriorate. All of these countries have been afflicted with severe inflation. However, the price increases in the United States have been mild. If prices rise about 5 percent, it is not considered to be inflation.

The U.S. international balance of payments deficit (current account balance) is near 3 percent of its GNP. Although inflation is a basic factor for that, it is an insufficient factor, and because the United States imports freely from overseas, inflation has not surfaced. Because the United States has the margin to continue purchasing from overseas, price hikes settle both inside and outside the country at around 5 percent.

If the United States cuts imports to reduce the trade deficit, it will just intensify the inflation. A combination of an insufficiency of goods and rising prices means a lack of strength on the supply side. This is inflation pressure in the true sense.

Of course, prices do not always rise just because of a shortage of goods. At times, the rate of the rise in prices is greater than the rate of the shortage of goods, and there are cases when it is smaller than that.

Let us look at the supply surplus of various countries. In Japan's case, domestic prices are stable because Japan exports its surplus production overseas. Were exports to decline, a domestic supply surplus would suddenly emerge.

In 1987, Japan had the most favorable supply situation among the five economic powers. West Germany was second. Conversely, the United States had the greatest deficiency of supply strength. Great Britain was second.

When we look at 1988, the circumstances are different. Amidst the worldwide booming economic situation, the supply situation in certain countries declined, and the shortages in countries which were already experiencing supply shortages increased. The deterioration of France and Great Britain was particularly great.

On the surface, the United States does not have inflation. If the enormous trade deficit continues, inflation

will remain settled to that extent. However, the large trade deficit cannot continue forever. When imports shrink greatly, there will be considerable inflation. This latent inflation factor is hidden behind the trade deficit.

Unless the domestic economic situation deteriorates, the United States may not begin to correct its trade deficit. However, the balance of trade itself is most important for the national economy. U.S. exports have actually been increasing by 20 percent annually. However, because the domestic economic situation is in excellent shape, the unemployment rate is falling and there is a shortage of labor; plants are also operating at near full capacity. Consequently, it will be difficult to further increase exports. In order to keep its trade deficit in check, the United States needs to cut its imports by 30 percent at the very least. That method will lower the economic standard of living of the United States, and what is required is a deflationary policy. Even though an extreme deflationary policy is needed, there is a question as to the extent that this is possible politically.

Another method that could be considered is an inflationary policy. This would mean setting such a high price on foreign goods that they would be generally inaccessible, and the price of the dollar would be devalued sharply. If that were not enough, imports could be controlled directly, and an import surcharge system could be invoked.

Domestic repercussions are inevitable with either method. If the repercussions are strong, the implementation of the policy will be difficult. In particular, at the end of the Reagan administration, with the November 1988 presidential election coming up, these policies were considered impossible to carry out even though their necessity was recognized. Because of that, President Bush will be forced to challenge this problem resolutely.

President Bush made campaign pledges not to raise taxes and to respect free trade. Of course, honoring campaign pledges is the mission of a politician. However, the most necessary task for a politician is to defend the nation. Breaking a campaign pledge in order to defend the nation economically may be unavoidable. Judging from the economic condition of the United States, the brakes must be applied quickly. Even if the brakes cannot be applied quickly, it cannot be avoided forever.

Even if they are applied quickly the effect will require at least a year. We would expect U.S. imports to decline suddenly after 1990.

This fact may bring joy to the economists of the world who advocate the reduction of the U.S. trade deficit. However, if the United States cuts imports rapidly, the countries of the world will suffer a severe impact. This is because, thanks to the United States making the sacrifice and continuing to import enormously, the world economy has continued to prosper.

If the United States cut off imports all of a sudden, exports to the United States would drop precipitously,

FBIS-EAS-89-140-S
24 July 1989

120

and this would be a cause of economic decline for Japan. Southeast Asia would probably also reduce its imports from Japan.

If it cannot export to the United States, Southeast Asia will probably intensify its export offensive against Japan, which is the second largest economic power. It is said that the products of Southeast Asia will not sell so well in Japan because Japanese consumers seek excellent quality products no matter how expensive. However, if the domestic economy worsens, Southeast Asia's goods, which are cheaper in price, can be expected to grow in sales in Japan. Japanese domestic producers will be harmed by this, and it could be possible for the economy to be adversely affected.

Japan's Huge Government Securities Balance

If a sudden and severe worsening of the economy occurs, we will again seek relief from the government. In the past, when economic crises occurred the government came to the rescue by invoking strong fiscal measures. A familiar example is the oil shock. Even in the recent strong yen recession, this was the case.

Using fiscal policy is a method by which the government relieves the national economy by expanding the deficit. In emergency circumstances, there is no choice but to rely on fiscal policy. However, when the emergency situation passes and the economy is again in good shape, the government needs to run a surplus in order to recover the previous deficit. The important thing is to reduce public investment which have been suddenly increased, to do away with tax reductions that have been suddenly carried out, and to dare to increase taxes. This is extremely difficult. Although there are people who favor increasing public investment, there is no one who favors cutting it. All men praise cutting taxes and oppose increasing them. Even when the economy returns to a favorable condition, those who want the economy to do even better are economists. This does not mean they favor cutting public investment and raising taxes to slow the economy. [passage omitted]

When we talk of a large fiscal deficit, the U.S. deficit comes to mind. Of course, the U.S. fiscal deficit is huge. As a result of the large fiscal deficit that continued under President Reagan, U.S. debt has suddenly increased and an enormous amount of interest is being paid out. Even though the American people accept taxes, 17 percent of those taxes go for interest payments.

However, Japan's fiscal situation is even worse than that since more than 21 percent of Japan's taxes disappear as interest payments.

In order for a booming economic situation to continue and large tax payments to be collected, the government's finances must naturally be in surplus. In spite of that, even in 1989, the government's finances are still in deficit. If the economy recedes, tax collection will

decline, and the deficit will suddenly expand. We talk of aiming for fiscal reconstruction, but that is far from the actual situation.

Let us look at the G-5 countries. Great Britain is the country with the most debt. Prime Minister Thatcher labors under a debt exceeding 60 percent of the GNP and is fighting for the reconstruction of government finances. She has achieved success with perfect finesse by demanding that the people live a diligent and austere lifestyle and begin an inevitable fiscal reconstruction.

The British debt ratio has improved, little by little. As for the British economy itself, it still has many problems. However, the actions taken by Prime Minister Thatcher have become a model for every country, starting with Australia and New Zealand.

The country with the second highest debt among the G-5 [Group of Five] is the United States. As the leader of the free world, the United States fought the Korean war and shed blood in the Vietnam war. A fiscal deficit could not be avoided as one of its many sacrifices.

Japan, as one might expect of an economic honor student, has an extremely small debt ratio. Around 1975, Japan suddenly began to accumulate debt. The national debt ratio expanded all of a sudden, and Japan had caught up with the United States by 1979. In 1980, it passed the United States and was in second place close to Great Britain. In 1983, it was even with Great Britain and now holds the number one spot.

No Advance Repayment of Loans

Persons who take out loans and spend the money are fortunate. However, if they receive a loan, they must pay interest. In order to pay interest, they cannot spend all that they earn. Japan's present fiscal situation is like that. Further misery ensues when the loan is to be repaid, and what has been earned must be used for repayment of the loan.

This fact is what borrowers actually feel more acutely than anything else. However, even though this is painful for an individual, the people as a whole are likely to regard this as someone else's business.

Japan has flourished over the past 4 years with an economy based on borrowing. Japan must pay those bills in the future. The interest will probably make the nation suffer forever. In Japan, government securities are repaid over a 60-year period. To state it more precisely, the repayment plan of loans which are to be repaid over those 60 years is likely to fall into arrears. Moreover, this will become a burden for our children and grandchildren.

In a democracy, the people who win are called the "ins" and the people who lose are called the opposition. The voters make their choice by giving a plurality of the votes to one side or the other. To raise the standard of living as in the current situation by running a fiscal deficit is

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FBIS-EAS-89-140-S
24 July 1989

121

something which everybody favors. Those who oppose it are the persons who must repay the debts.

However, they have not yet been born. By taking advantage of this fact, we who exist voice our support, and deficit financing continues. The people who will be born in the future and make up the Japanese nation will undoubtedly be miserable about this. This is because the taxes they will have to pay will be used up for interest, and they will have little money to spend for themselves.

Even if we have to borrow, our grandchildren might be happy if the money is spent on fine facilities, such as roads and ports. However, the roads that are built cannot be used forever.

The average number of years that an infrastructure facility lasts is 32 years, according to calculations by the Economic Planning Agency. Repair costs are required right up to the time the usefulness of the facility expires. If we cannot afford the expenses for repairs, public facilities will fall into disuse. If a hole opens up in a road even at one site, it cannot be used.

Since these public infrastructures only have a finite lifetime, they must eventually be rebuilt. However, Japan's government securities are to be repaid over a 60-year period. In other words, at the stage when they are no longer usable only half of the loan will have been repaid.

Corporate management does not work in this way. Usually, they repay the debt when the facility is about half used up. This is the reverse of the government's case. After 30 years, the nation possesses a facility that it cannot use, and yet it must pay the remaining half of the debt. The Japanese people of the future will not be happy about that.

We must quickly reduce our deficit to zero in order to rebuild our finances. The only means to achieve that is to cut expenses and increase revenues. Earnestly cutting expenditures in the name of fiscal reconstruction is not enough. That being the case, we must also work to increase revenues.

Opinion has been strong that if we work to increase revenues, we should tax the rich and the corporations. Thus, we have the graduated income tax and corporate taxes. They have been implemented because of the most modern economic thinking.

If more than half of what is earned goes to taxes, people will not work. That fact was quickly understood, and a movement was begun to try to correct the graduated income tax. In the United States, the highest income tax rate was lowered to 28 percent.

There is concern that many people will transfer their residences to locales with lower tax rates. The possibility has emerged that if the tax rate differs this much, the wealthy will all get up at once and abandon the country and move elsewhere. In that case, tax revenues would decline precipitously.

If corporate taxes are high, and it is a natural desire to want to cut expenditures as much as possible, corporations will move their headquarters to places in the world where the taxes are cheap.

That would also mean a precipitous decline in the nation's tax revenues.

Keeping the taxes low among the general populace is considered desirable. However, even that is already difficult to realize. There is a need for the tax burden to be assumed by most of the people.

The most advanced and conspicuous nation in regard to this is Great Britain, with the United States following close behind. Every nation in the world is pointed in that direction. The slowest among the advanced nations is Japan. The introduction of a consumption tax can be considered unavoidable.

Boldness Needed to Resolve Problems

As far as 1989 is concerned, most people will have taxes cut rather than increased by the consumption tax. However, the tax rate will rise in the future, and there will be more tax revenue.

In the future, even if the economy worsens, it must be rescued with increased taxes. We cannot ignore that fiscal reconstruction requires efforts and that sacrifice accompanies those efforts.

This is the same for the individual, the company, and the nation. If we borrow money and spend money, prosperity will continue. The world has continued this prosperity for many years. The people who borrow money lead a charmed life every day. There are even countries who are undertaking economic reconstruction through debt. There are also countries who are increasing their standard of living through debt. In either case, they use loans to purchase goods from foreign countries. The exporting countries will increase exports and be prosperous, and prosperity will continue throughout the world as long as such a situation can be continued.

As a result, the remaining problem is with the countries that have accumulated debt. The world economy, which has continued to prosper for a number of years while debt has accumulated, seems to be at a turning point.

This problem has not surfaced up to now. What eases this problem may be the huge external debt run up by the United States. The world economy has continued to prosper because the United States has wasted its own assets.

Along with the United States squandering away its own assets, it has supported the world economy by borrowing money from other countries. However, the United States may be close to its limits.

Japan itself also continues to maintain a huge fiscal deficit. Thanks to that, the Japanese economy has been able to surmount many difficulties over time, and has

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FBIS-EAS-89-140-S
24 July 1989

122

continued a miraculous economic expansion. However, on the other hand, we are eating into the assets that we ought to bequeath to our children and grandchildren, and an enormous debt will remain for them to pay.

Everyone understands these facts. Even though they understand them, resolving them is difficult. The reason for this is simple. If we attempted to resolve these problems by confronting them directly, we would have to sacrifice.

However, there is no more room. The time may have arrived when we must resolutely face the real problem. We may search for the best way to deal with this problem, but there is no magic wand which will make it go away.

Today, we must all make an individual sacrifice. I believe that as much of the population as possible must take the burden upon themselves and resolve to lower their personal standard of living.

Resolving a great problem demands a very great sacrifice. The most important thing for us at present will be to have the boldness to make the sacrifice.

*** Changes Forthcoming in Retail Store Law**
41060123 Tokyo NIHON KEIZAI SHIMBUN in Japanese 30 May 89 p 2 (evening edition)—FOR OFFICIAL USE ONLY

[Text] As soon as early June MITI [Ministry of International Trade and Industry] will formulate "A Vision for Distribution in the 1990's," a document to describe a long-term scenario for the distribution industry, and will spell out a new basis for guidance related to regulations for the opening of new branch stores by large-scale retailers such as supermarkets and department stores. In concrete terms it will deal with the application of the Large-Scale Retail Store Law aiming at deregulation, the final draft of which has now been completed. Compared to the skeletal draft that was made public at the end of April, there are no major changes to such things as limiting the adjustment period for opening branch stores. However, a distinguishing feature of the final plan is that there was a later adjustment to the April draft concerning such items as the number of days the large-scale stores will close. These changes reflect the importance attached to the voice of the medium and small retailers, as well as MITI's dilemma in being squeezed by the outside pressure of trade friction between the United States and Japan and domestic policy for medium and small businesses.

What changed significantly in the final draft from that of the April plan were the items related to the number of days that large-scale retailers will close. In the first plan the standard was set at 40 or more days, but this number was increased to 44, or more. Furthermore, in the earlier draft the criterion of adjustment with local retailers had been abolished for those enterprises planning to open

stores, but this was changed and now remains at the present standard of 30 days per year.

What was newly added to the final draft were such things as regulations that would simplify the procedures for minor expansion of floor space by retailers, and the requirement for those opening branch stores to make prior explanations to the local areas before submitting notification to the various government bodies concerned. The word "appropriate" was added to the first explanation, from the "businessmen or consumer group" in the first draft to "appropriate businessmen or consumer group" in the final. Even in the items related to the first explanation, there was a section on "consultation with the chamber of commerce, etc.," that was appended.

Concerning minor expansions of floor space, a provision was added that says that the law will "view retailers with a relationship to collateral companies or business groups the same as if they were related companies" and this puts a halt to repeated expansions by subsidiary and enterprise groups.

In addition, an item that says "excessive store opening plans will invite confusion and anxiety in local areas" was added and this ventures into the psychological realm, saying, "it will be necessary for the related parties to act with moderation."

That there were such changes is due to the fact that the draft had to reflect the opinion of the medium and small retailers who are the voting supporters of the LDP [Liberal Democratic Party], and who watch the actions of the authorities intently. The resistance to deregulation by these medium and small retailers is deeply rooted. Mr Hiroshi Mitamura, director of the All Japan Neighborhood Shopping Promotion Associations Federation (Zenshinren) emphasized, "it is ridiculous to set up one standard for the entire country and ignore the point that business practices differ in each region." Mr Taizo Hiramatsu, chairman for policy of the Federation of Specialty Store Associations in Japan (Nisenren) did not conceal his anxiety either, saying, "the large-scale retail stores have been making preparations for expansion since the Large-Scale Retail Stores Council (Daitenshin) Presidents' meeting of 1987. When the relaxation of this law occurs there will be, as there was previously, another concentrated rush of store openings and expansions, and confusion will be unavoidable."

The 1987 Daitenshin meeting he refers to is the one that said, "If the original aims of previous explanations are followed completely, the local business activity regulation councils will become active in the regulation process of the large-scale retail store law. If a local business council unnecessarily prolongs these discussions, the council and the Large-Scale Retail Stores Council will formally discuss the problem." That meeting drastically changed the policy of strengthening regulations governing the opening of branch stores started in 1982, and Chairman Hiramatsu says that the desire of the large

FOR OFFICIAL USE ONLY

FBIS-EAS-89-140-S
24 July 1989

123

retailers to open more stores is already increasing, even without waiting for relaxation of the application of the law.

In reality, even looking at MITI's "Site Notification for Large-Scale Retail Store Construction" (Article 3 explaining the application by persons wishing to construct a building), the number of first class large-scale stores (those with sales floor area in excess of 1,500 square meters) in 1985 was 244 stores. This was just slightly more than the previous year's 203 stores, but only slightly more than the 194 stores of 1981—before the strengthening of the regulations.

Looking at this situation, MITI seems to have had no choice with the final plan but to revise the regulatory provision. For the ministry, which has jurisdiction over both the large-scale stores and the small and medium retailers, it was a hard choice, but even so, there is a strong leaning toward the side of deregulation.

However, looking at it from the perspective of the large-scale store side, there are many who question the effect of the contents of the deregulation policy (plan).

"It is not deregulation, it is much ado about nothing," (Sueaki Takaoka, president of the Japan Chain Stores Association). Furthermore, "Even calling it deregulation, it is still not enough," (Takuya Okada, president of Jusco Co, Ltd) Or, "Regulations to control expansion were undertaken in 1982, and all this does is take us back to the rules that existed prior to that," (Kazuo Wada, president of Yaohan Department Store Co, Ltd). So dissatisfaction remains. Some people are already asking if "the United States will understand the contents of this policy." The debate concerning regulation of large-scale stores looks like it will continue in the future.

*** Continuation of Overseas Production Expected**
41060124 Tokyo *NIHON KEIZAI SHIMBUN* in
Japanese 30 May 89, (evening edition) p 3—FOR
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[Editorial by Yozo Hasegawa: "Manufacturers Calmly View the Weakening Yen"]

[Text] The continuing depreciation of the yen forced the Bank of Japan, always cautions about inflation, to increase the official discount rate. But manufacturers are viewing this with great calm. Just a short time ago they would have been caught up in a whirlwind of worry, such as how to modify the strong yen policy, how to change import plans for material and parts, etc.

On 23 May 1989, when the exchange rate broke the \$1/143 yen level, a timely general meeting of the Keidanren [Federation of Economic Organizations] was held and various views were expressed.

"We are a global enterprise with production bases around the world. We won't act hastily, whether the trend is toward a weak or a strong yen," (Sony Chairman Akio Morita).

"Technology is the key factor in excelling in international competition. Some people say that a weak yen helps to build exports, but the results are quite obvious when technology is not there as a major factor," (NEC President Tadahiro Sekimoto).

"The weakening of the yen may continue for a while. However, it will strengthen again eventually. Measures against a strong yen should be continuous," (Komatsu President Ryoichi Kawai).

There are some reasons why manufacturers are not taking hasty action even though the yen continues to weaken.

First, manufacturers hedge extensively against the possibility of losses with strategies such as exchange rate reservations, eliminating the need for hastily changed contracts, even if the yen becomes depreciated. This is a method introduced after a rapidly strengthening yen made futures' contracts difficult, and manufacturers will not change contracts even if they know of upcoming advantages due to a weakening yen. It is safe to say that an orientation toward stability has taken root.

The project reform has also contributed to this. During the process of a strengthening yen, nonprofitable sectors are likely to be dropped; while in the export sectors, the extremely competitive high-tech industries are becoming a major force. Many export industries, which have limitations, have already disappeared.

Manufacturers of new export products, such as lap-top personal computers, facsimiles, and VTR's, have been continuously adopting technological innovations, and are trying to dissociate their products from those of the United States and other countries. Setting prices is getting easier because of technological innovations, and is not affected by fluctuating exchange rates.

In addition, overseas production bases have expanded. According to a survey by MITI [Ministry of International Trade and Industry], the ratio of manufacturers' overseas production is currently around 4 percent. This is estimated to increase to about 8 percent by 1995, and to about 13 percent by the year 2000. There are an increasing number of cases of exports emanating from production bases, such as in the United States and Europe, to a third country.

Production bases have spread around the world, and a consequence of this has been to create the idea of multiple utilization of these bases depending on the exchange rate of the dollar. The need to be either pleased or worried about the yen rate has lessened. Conversely, it is difficult to take a strategy of reshifting production from abroad to home simply because of weak yen advantages.

Of course, the weak yen hits hard at industries which for the past 4 years have procured cheap material and parts from abroad, but so far, their cry has been unheard, because of the good domestic demand.

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FBIS-EAS-89-140-S
24 July 1989

124

What is noteworthy in the present situation is that the industrial structure is based upon both the ability to merchandise and technological capability, built up during a strong yen period through exports and imports, and it will not return to its previous structure even if the yen is in a weak phase.

Nissan Motors President Yutaka Kume said "unless \$1 reaches the 200 yen mark, we will not change our overseas production planning." Overwhelmingly, a large number of business managers hold the view that expansion of overseas production bases will lead to stability, although the advantages of a weak yen will not be enjoyed.

On 20 May, in the midst of a sharp drop in the yen, the British Financial Times ran a feature story entitled "Profit Gained from Strong Yen's Pain." It reported on a leading Japanese company implementing cost reductions at one of its plants in order to overcome the strong yen situation, and concluded that "Japanese companies are still able to compete."

I cannot deny that export industries, which have carried out their management strategies based upon a \$1/100 yen rate, are pleased with this weak yen trend. However, a stronger trend has been that of global strategy, amidst which the fluctuation of exchange rates is just not as significant as before.

Keidanren Urges Defense Research, Development
OW2505042589 Tokyo MAINICHI DAILY NEWS
in English 18 May 89 p 7—FOR OFFICIAL USE ONLY

[Text] The Federation of Economic Organizations (Keidanren) will request that the government give a larger proportion of the defense budget to research and development, officials said.

The Keidanren board of directors on Tuesday approved a petition compiled by the organization's defense production committee concerning the government's next mid-term defense buildup plan.

Officials said they will submit the request to the government in the near future.

The petition asks that the portion of the defense budget allotted to research and development be hiked from the present 2 percent to over 5 percent.

It also calls for the government to take steps to assure that U.S.-Japanese joint research and development involving military applications of civil technology will not be detrimental to Japanese corporations.

The midterm defense buildup plan which is presently being drafted by the Defense Agency is expected to be affirmed by the government in Autumn 1990. Such plans are renewed approximately every five years.

Defense-related industries are worried that the buildup of airplanes and other major defense equipment specified in the national Defense Program Outline of 1976 will be completed by the time the present midterm defense buildup plan expires in 1990.

Because orders for such equipment could be drastically reduced from 1991, industries are stressing that the only way they can maintain stable operations and continue technological development is to have an increase of the budget allotment to research and development.

The extra money should be used to establish large-scale research facilities which are beyond the capacity of private corporations, while a larger percentage of defense equipment should be made domestically in order to maintain stable operations, they said.

Pointing out that Japan made large concessions to the United States in the FSX fighter negotiations, Keidanren said that Japanese companies cannot be treated unfairly or be kept from transferring technology in the future.

MITI Unveils Project To Combat Environment Problems

OW1107180689 Tokyo JIJI in English 1351 GMT
11 Jul 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, July 11 (JIJI PRESS)—The Ministry of International Trade and Industry (MITI) Tuesday unveiled a 300-billion-yen project to develop technologies to combat global environmental problems.

To that end, MITI is planning to establish a research laboratory specializing in full-fledged studies on technologies to control an excessive discharge of carbon dioxide believed to be the leading culprit in the earth's warming.

Research and development at the planned laboratory will also be directed at developing substitutes for chlorofluorocarbons (CFCs), ozone-depleting chemicals, MITI officials said.

Specifically, researchers will seek to analyze the mechanism of carbon dioxide circulation and finding alternative uses for the discharged carbon dioxide.

Also on the research agenda are studies to establish measures against seawater pollution and develop plastic materials vulnerable to microorganism attack, the officials said.

Japan will disclose the project at the Paris economic summit meeting Friday through Sunday in the hope of expanding it into a multilateral effort.

Manned Space Program Included in Outline
OW3006004989 Tokyo ASAHI EVENING NEWS
in English 28 Jun 89 p 3—FOR OFFICIAL USE ONLY

[Text] The Space Development Committee headed by Director-General Kishiro Nakamura of the Science and

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FBIS-EAS-89-140-S
24 July 1989

125

Technology Agency Wednesday revised the space development policy outline for the first time in five years in order to establish the foundation for developing Japan's own manned space program in the future.

The outline was drafted in 1978 in order to promote Japan's overall space development and was revised first in 1984.

The revised outline lists the major goals as the development of a two-ton stationary satellite and an H-2 rocket for launching the satellite. The projects are to be completed by 1992.

In the next 10 years, experiments in space will be carried out by Japanese astronauts while space stations will begin operating. The revised outline calls for acquiring the necessary technology for manned space activities, including development of equipment, training, and health supervision.

Foreign Ministry Science-Technology Diplomacy
OW1307143089 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 7 Jul 89 Morning Edition p 5—FOR
OFFICIAL USE ONLY

[Text] The Foreign Ministry's science and technology task force, which has been studying the ideal science and technology diplomacy for Japan, issued a report on 6 July calling for the opening of practical application research and expansion of government budgets to cope with high-technology friction among advanced nations and to meet requests from developing countries for technological transfers.

The first report, aimed at establishing "science and technology diplomacy," stresses the importance of science and technology in economic relations with Europe and the United States and recommends that science and technology policy emphasize diplomatic aspects.

On the export of Japanese high-technology products, the report explains the situation in which technology shows "an excess of imports." It then warns that, if left unchecked, the friction with Europe and the United States will become more serious. It notes that the United States, in particular, is quite dissatisfied with Japan in that practical application research, in which Japan is strong, is carried out by private industry, making access to it difficult for U.S. laboratories.

For this reason the report says that it is necessary to open up inventions and discoveries that may lead to commercialization as international common property. With an eye to promoting exchanges of scientists and mammoth scientific projects including one on superconductivity, it calls for special treatment of "science and technology cooperation funds," similar to the official development assistance (ODA).

Developing countries, on the other hand, seek from Japan access to its new technologies and participation in

its research and development programs as their industries advance pursuant to their economic development. In this connection, the report says Japan should actively cooperate in legal and policy areas in making preparations for technological transfers, including the protection of intellectual ownership rights.

In dealing with the Eastern bloc countries, the report stresses that the Toshiba Machine incident, which led to U.S. sanctions against Japan, should not be allowed to happen again. It calls for holding seminars and symposia with European nations and the United States on technological exchanges with the Eastern Bloc, thus building cooperative relations with the Eastern Bloc in the science and technology area while keeping step with the West.

The Foreign Ministry created the task force in March 1988, believing that Japan's science and technology has grown to have great bearing on the West's security and economic relations.

*** Profile of Politician Setsu Shiga**
41050083 Tokyo SEIKAI ORAI in Japanese
Apr 89 pp 49-61—FOR OFFICIAL USE ONLY

[Article by journalist Atsushi Kinoshita]

[Excerpts] **Protege of Former Prime Minister Takeo Miki**

Setsu Shiga turned 56 years old on 3 February 1989. About 300 of his supporters gathered at the Green Hall of the Akasaka Prince Hotel in Tokyo to celebrate his birthday. Rather than being a gathering to rally around a politician, this assemblage of the "Daisetsu Kai" was held in a family-type atmosphere, centering on friends, acquaintances, and businessmen.

Setsu Shiga, the guest of honor at this assemblage, arrived at the hall a few minutes after the scheduled 1830 opening of the program. Other honored guests included Mrs Mutsuko Miki, widow of former Prime Minister Takeo Miki; Diet member Raizo Matsuno, a doyen of the Liberal Democratic Party [LDP]; LDP Diet member Iwao Kudo from Iwate Prefecture; and political commentator Yoshimasa Miyazaki. The fact that Setsu Shiga was at ease with all the people gave an indication as to the nature of the gathering. Setsu Shiga's supporters wish that he celebrate "his 56th birthday and his appointment as a cabinet member simultaneously," was not fulfilled since Prime Minister Takeshita did not appoint Shiga to his first reorganized cabinet on 27 December 1988. But Mrs Mutsuko Miki, widow of former Prime Minister Takeo Miki who was Shiga's mentor and who had passed away with the reputation of being a clean politician, prefaced her talk with the remark, "What an awful cabinet and I am truly happy that he is not a member of the cabinet which has been tainted by the Recruit scandal," and she exhorted that "the mission of politician Setsu Shiga is not to be implicated with this cabinet, but boldly to challenge it," to which the crowd responded with thunderous applause. Even the other guest speakers spoke unanimously that

FBIS-EAS-89-140-S
24 July 1989

126

"as former Prime Minister Miki's protege, who has respected the rules of integrity and has continued to speak out for righteousness, Setsu Shiga indeed is the outstanding candidate the political world is now looking for."

As the last speaker, Shiga responded to these exhortations by promising his supporters that he will continue to follow the wishes of former Prime Minister Takeo Miki whom he had personally revered as his mentor. Shiga's birthday party was concluded with all those present singing the "Song in Praise of Setsu Shiga" to the tune of the school song of Waseda University, his alma mater.

At this birthday party, Mrs Mutsuko Miki criticized Takeshita's first reorganized cabinet as a "cabinet tainted by the Recruit scandal," but what she said certainly must have voiced the thoughts of a great majority of the Japanese people. Although the cabinet was reorganized with the slogan of "purge Recruit-related Diet members," it was revealed right after the cabinet formation, that two members—Justice Minister Takashi Hasegawa and Ken Harada, director of the Economic Planning Agency—had received large sums of political contributions and were forced to resign.

They were not the only ones involved. One by one, the leading members of the government and the LDP, including Prime Minister Noboru Takeshita, Chief Cabinet Secretary Keizo Obuchi, Minister of Agriculture, Forestry and Fisheries Tsutomu Haneda, Secretary General Shintaro Abe, Policy Research Council Chairman Michio Watanabe, former Prime Minister Yasuhiro Nakasone, former Finance Minister Kiichi Miyazawa, etc., were also linked to the Recruit scandal. Distrust of politics and resentment against politicians have now spread throughout the nation.

The vast majority of LDP Diet members have received these developments with serious concern. Nevertheless, hardly anyone has been heard seeking resolution of the suspicions. In the past, then Prime Minister Miki, in addition to going all out to resolve suspicions in the Lockheed case, afterward fought alone to try to clean up the political world. But former Prime Minister Miki has passed away. In the midst of this turmoil, the presence of Diet member Setsu Shiga, who has been described as former Prime Minister Miki's protege and who has pledged to continue his fight, has suddenly moved onto center stage.

When asked, "Right now, what is your priority task," Shiga quickly replied as follows:

"I am a politician and I want to remain a politician. If for no other reason than that I would want to preserve the institution of politics. Today, politics, and politicians for that matter, have fallen into situations that incur the distrust of the people. Politics without the confidence of the people is no longer a viable institution, and politicians are no longer able to function. To cite an extreme case, even if a national election were held, there wouldn't be any elected official if no one cast a vote. Therefore, I

believe that wiping out anything that can incur this sort of distrust is the necessary task of the politician. And because this sort of activity is necessary and indispensable from the standpoint of preserving the essence of politics, I believe it is imperative that we immediately get involved with this clean-up activity. Right now, the uproar in the political world is a result of the Recruit affair, but I believe that it is a ground swell or tide of distrust of the people with politics in general that has brought about this condition."

The feeling is that Shiga, who has always respected the rules of integrity and has continued to speak out for righteousness, can no longer tolerate the present state of politics, which has incurred the distrust of the people. Shiga continued his talk:

"In effect, advanced nations, including Japan, have become rich with material goods, but, conversely, a lack of spirituality has begun to creep in. As an example, a wild animal trainer will teach stunts to wild animals while baiting them with their favorite food. If wild animals could discern the value of money, in all likelihood they would perform stunts for money. Thus, food and money are in the same class.

"Human beings differ from animals because they can maintain standards based on such concepts as personal ideals, a sense of justice, and a sense of mission. However, money appears to be the standard for all human conduct today. In this respect, I believe that man has begun to behave in a manner similar to wild animals. Herein lies the big problem about which I am very apprehensive. It is imperative that everyone—politicians and ordinary citizens—judge their personal conduct on the basis of such principles as ideals, a sense of justice, and a sense of mission. Politics must be practiced based on these principles, and if politicians do not take the initiative then ordinary citizens have no role model. I wonder if this should not be the attitude of politicians and those people who love politics?"

Miki's Evaluation Suddenly Heightened

But with each revelation of the scandal so far, the government and LDP leaders have continued to say, "Avoid placing yourself in a compromising situation" or "He who suggests it should be the first to do it." In spite of this, the same routine is repeated. Even with this Recruit scandal, some key personnel have made defiant-sounding statements, such as "I am involved because politics requires an excessive amount of money"; or cabinet members who have resigned have stated, "There is nothing shady. My resignation was tendered in order to avoid trouble for the Diet." Furthermore, the "contamination" has spread even among some of the minority party Diet members who are supposed to be critical and provide a check on power. Haven't the great majority of the Japanese people lost faith in the present politics of Japan?

"As for losing faith, I believe this has already occurred, but with a continuation of this loss of faith politics per se

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FBIS-EAS-89-140-S
24 July 1989

127

will disappear. Theoretically, since the majority party is at the center of power, it would appear to suffer the greatest disgrace. Minority parties should be a check on illegal activities and draw attention to them, and it is unfortunate if the reverse situation occurs and they, too, are involved in a 'dirty' affair. This is the desired procedure for parliamentary politics. But then, over the long term, the minority parties accepted their role as minority parties and certain minority leaders fraternized and engaged in dirty practices as well. And these practices have resulted in the improper functioning of parliamentary politics, which I believe is our biggest problem.

"The second problem lies in our party, and our efforts to clean up our party. Of course, such actions have been taken in the past. But we must discover some better solution. In other words, nothing is likely to change based only on the efforts of Diet member Hyosuke Kujiraoka (Komoto faction) waging a one-man battle. I believe that this task must be emphasized as a duty which as LDP members we all must accept."

Shiga continued.

"At least during the time of the Lockheed scandal, the factional leaders within the LDP raised their voices. For instance, Mr Fukuda stated that 'We must start afresh but within the bounds of supporting the LDP,' and Mr Ohira stated that 'We must perform an ablution.' [passage omitted] On the other hand, the situation today is totally void of these expressions of feeling.

"My mentor, Takeo Miki, passed away right in the middle of the fast spreading Recruit scandal, and Mr Miki, who had been thought of as a man of the past, suddenly rose in the esteem of current politicians. I can recall that Mr Miki declared that he would clear up the Lockheed scandal and he actually performed the job. I think that the matter of the investigation was taken lightly, and it was believed that anyone serving as prime minister could perform that sort of investigation and settlement. But now with the present Recruit scandal, an affair which is so sordid that it must be totally exposed, the public has come to recognize what a great leader Mr Miki was when he staked his reputation on clearing up the Lockheed scandal. I think that this performance was a highlight in his life which raised the stature of Mr Miki as a man."

In order to sweep away the political distrust that erupted from the Recruit suspicions, Prime Minister Takeshita is presently involved in political reform. But in dealing with such issues as reducing the number of Diet members or the amounts of contributions, counterarguments have continuously been presented within the LDP. Whether true political reform can be achieved by dealing with these issues has been questioned and there have been voices raised about the uncertainty of the future.

"Political reform is dependent on whether Mr Takeshita is sincere about instituting an agenda for it. Should Mr Takeshita say that he will seek political reform at any

cost, various proposals will be made, and I believe he will accept them. On the other hand, Mr Takeshita and those of us in the LDP should reflect with humility as to why the public is so skeptical about political reform."

Political reform is definitely needed, but before it is achieved, the Diet should conduct a thorough investigation of any questions concerning the Recruit scandal. Some people take the harsh view that political reform is being used only as a screen to hide evidence, but....

"If we are to talk about a thorough investigation of the Recruit suspicions, would not the act of airing out all the innuendo and names of people be a relief? Whether my name will appear on the list or not is irrelevant; I feel that this is the logical way of doing things. It is true that I am not concerned about my name appearing on the list, but even if it should be published, I still feel that everything should be out in the open.

"One other area is the observation of mass media reportage, which contends that all donations or purchases of rally tickets involving the Recruit Co. is 'wrong.' The Recruit Co., before the exposure of the scandal, was a growth industrial company which no one had pointed an accusing finger at. In this respect, is it not the same as other growth industrial companies, like Fujitsu, Ltd. and the Nippon Electric Co., and are not the political contributions emanating from these companies the same as for Recruit? If these monies are declared to be 'wrong,' then it would mean disavowing all monies termed political contributions. Therefore, I believe that contributions or rally ticket purchases made before the exposure of the scandal can be overlooked, if they are within the authorized limits of their offices and as long as the amounts are not unreasonably high. If this is not the accepted practice, then something is wrong. But if the contributions were received from Recruit or the rally tickets were purchased after the disclosure of the suspicions, then these acts become morally big issues. At any rate, I believe that clear distinctions must be drawn on these actions. However, the transfer of stocks, whether made before the disclosure of the suspicions or after, should be condemned because they were clearly acts of insider trading."

Shiga rambled on with his impassioned talk. In any country, the ability to speak forthrightly and with sound arguments can make one's presence appear formidable. With great expectation, it is hoped that Shiga, who has said "I love politics and hope to continue being a politician," will continue to speak forthrightly and with sound arguments, and at the same time take action.

Tough Grandfather and Father

Diet member Setsu Shiga (56 years old; elected 6 times; 2d district in Iwate Prefecture; member of Komoto faction) hails from a family of politicians, consisting of three generations (grandfather, father, and son), and as previously mentioned, he is the protege of former Prime Minister Takeo Miki. [passage omitted]

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FBIS-EAS-89-140-S

24 July 1989

128

The following is an episode in the life of his father, Kenjiro.

It was the time of the "1960 Mutual Security Pact Revision" when all of Japan was in an uproar. Shiga was then studying in the United States and was an outside observer of Japan. On several occasions, he wrote letters on the following subject to his father, Kenjiro, who was then a member of the lower house.

"It is indeed strange that you do not approve the revision of the Mutual Security Pact. I believe you should approve it. The reason is a very simple one. If in comparison with the current Mutual Security Pact, the revision is a retrogressive one and Japan appears to be governed somewhat like a colony, then this is disgraceful and should naturally be opposed. But the revised Mutual Security Pact treats Japan as an independent nation and is a forward-looking policy. So why are you opposing it? You must give it your approval."

But Kenjiro was deliberately absent from the Diet sessions on the Mutual Security Pact. He wrote a letter giving his reason for the absence and sent it to Setsu in the United States. Shiga recollected the letter.

"To this day, I can recall the contents of that letter. My father did not question the right or wrong of the substance of the pact. The manner in which the Kishi cabinet promoted the Mutual Security Pact deliberations was the issue to which my father objected. Therefore, he was absent from the full session of the Diet when the revised pact, which had been unfairly considered, was voted on. Those were the contents of that letter. Besides my father, I believe my mentor Takeo Miki and about 10 others were absent from the Diet. My father was a tough man."

Setsu Shiga is much tougher and more stouthearted than his father and grandfather. But even as he has professed to be a devoted literature student during his school days, he still appears to be a romanticist. And this is one of his biggest assets.

Entered Waseda University With Aspirations To Become Novelist

Shiga was born into the environment of a political family, but during the latter part of his third year in primary school, his mother died. At that time, his family lived in Ushigome district, Tokyo, and he had been attending the Seishi Primary School. His maternal grandmother, who was living in Utsunomiya City, Tochigi Prefecture, took care of him and for the next 3 years he commuted to a primary school in Utsunomiya City. His grandmother was originally from Iwate Prefecture and she was the first female doctor from Iwate prefecture. She was said to be an extremely progressive-minded woman. Shiga's mother was her only child, and although she also was a doctor, she died young without having practiced medicine.

Three years later, Shiga returned to Tokyo to live with his father and he commuted to the Metropolitan Fourth Junior High School (called Fourth Junior High for short), but the name of this school was changed to Toyama High School, so Shiga became a Toyama High School student. But Shiga, "in order to become a novelist, desperately wanted to enter the French literature section of Waseda University," and so he changed schools soon after registration to enter Waseda University High School. Later he went directly into the first literature section (French literature) of Waseda University. [passage omitted]

Shiga, whose ambition was to be a novelist, had not even the slightest notion of seeking employment after graduating from Waseda University. Unable to remain indifferent, his grandmother spoke to him and recommended studying abroad by saying, "I definitely want you to go to a foreign country to study." Moved by his grandmother's enthusiasm, Shiga finally decided to go abroad to study. [passage omitted]

Shiga entered the graduate school of the University of Southern California [USC] to study international politics. Takeo Miki and Susumu Nikaido had also studied at USC. From these coincidences, it can probably be said that Shiga in due time may be fated to seek the LDP presidency and prime minister's position.

The year he graduated from USC, Japan was embroiled in the midst of the "1960 Mutual Security Pact" uproar. This event was reported extensively even in the United States and relations gradually deteriorated. It reached a peak with the "Haggerty incident." Feeling the coldness of the people's reactions, Shiga flew to Mexico to see a friend, just about the time the summer vacation began.

"Spanish is spoken in Mexico and I learned that there are many countries where Spanish is spoken. With the exception of Brazil, all the countries in South and Central America have Spanish as the spoken language. The source of this culture is Spain, and therefore I left for Spain to learn its culture and language."

Shiga stayed in Spain for 2 years, studying its culture and language. For this reason, he speaks English and Spanish fluently.

He also visited France during this period.

"During my stay in Spain, Mr Kenzo Matsumura visited the country and asked me to become his secretary. But apparently my father was one step ahead and had already spoken with Mr Takeo Miki. For this reason, I did not follow Mr Matsumura, but was taken under wing by Mr Miki. Without considering which individual would offer the best opportunity, my life underwent a big change with this decision."

Upon his return to Japan in 1962, Shiga was employed as an investigator- researcher with the Central Policy Research Institute, a corporate juridical body which was headed by Mr Miki, and in due time he began work as a

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FBIS-EAS-89-140-S
24 July 1989

129

secretary for Mr Miki. Then in 1967, Shiga was formally appointed as Miki's secretary and he learned about political science from behind-the-scenes.

"I Am Not a Generational Diet Member"

"In dismissing my dreams of becoming a novelist, I still had a lingering wish to become a writer. However, while studying international politics at the USC graduate school, I realized that eventually I would become a politician, succeeding my father. This was probably due to influences from my environment. Of course, there was no way of knowing when I would take his place since my father was still active as a politician. I couldn't very well return to Japan and say 'I'll take over,'" Shiga laughingly said.

But the opportunity came earlier than expected. In the December 1969 general election, Shiga's father, Kenjiro, was defeated by Ichiro Ozawa (currently deputy cabinet secretary, Takeshita faction) in his first election attempt. At that time, Ozawa was 27 years old and because of the sudden death of his father, Saeki, he replaced him in the election. After this defeat, Kenjiro had planned to make a comeback in the next general election, but unfortunately in April 1971, just about 1 and 1/2 years before the scheduled next general election, Kenjiro was paralyzed by a stroke, and in 1972, he decided to retire formally from politics. Shiga described the chain of events leading to the selection of a successor to his father.

"My father was deeply distressed as to who should be his successor. Since a Diet member holds a public office, it is not correct to suggest a hereditary succession. And so my father had the feeling that it was not right to have me, his son, be his successor. But, on the other hand, I still wondered why international politics had been forced on me though I had aspired to become a novelist."

After much grievous deliberation, Kenjiro called his son, Setsu, to reveal his decision. The reason for quietly broaching his decision before making the formal announcement at his supporters' club was probably the fatherly concern of sparing his son disappointment. The person picked by Kenjiro was the home town prefectural assemblyman who had been his campaign manager.

"My father told me his decision, and he asked me if that was okay. My reply was that this was expected. But had I disagreed with him and become a candidate, we would have run against each other with neither one of us getting elected. Such a result would have brought disgrace on my father in his final days. 'Fine. Why don't you do as you please. No need to be concerned about me.' To which my father replied that he would 'take action,' but he was still in anguish."

Several days later, on the morning of the day when the prefectural assemblyman was to be formally installed, his father called Setsu once more to emphasize his decision, as follows.

"Apparently my father was more disturbed than I was. My father kept repeating, 'Son, is it really okay? If he is appointed there will be no turning back. Is it still okay with you? It's not too late if you should change your mind.' My reply was, 'That's fine with me. I don't mind, so do as you please.'"

Having heard Setsu's reply, Kenjiro formally appointed the prefectural assemblyman as his successor. The issue of his successor was thought to have been settled amicably. On the contrary, about 10 days later, the prefectural assemblyman hastily called the leaders of Kenjiro's supporters' club and made the following declaration.

"I have received the appointment as successor to Kenjiro Shiga, but on the occasion of this appointment, permit me to say that I will not run as a candidate and I appoint his son, Setsu, to be the candidate."

Because of this hasty change in plans, Setsu Shiga became a candidate in the lower house election which was scheduled to be held in December 1972. [passage omitted] During the election campaign, Shiga made his appeal on two issues.

"The constituency must be reorganized. During the roughly 3-year period after my father was defeated, this region suffered enormously and there is no way of measuring the loss incurred. Therefore, my appeal was centered on the theme that through my efforts we could recover from this loss. The other issue, made during the days of the Tanaka cabinet, was an emphasis on 'Japan's spiritual reform theory' which was a parody of the slogan 'Japanese archipelago reorganization theory.' These two issues were my key points at that time." [passage omitted]

Despite the fact that only a few months remained from the time of his nomination as the successor to the time of the election, Shiga emerged victorious in his first campaign during the general election of December 1972. He was 39 years old.

Since then, Shiga has been elected six consecutive times. From this electoral district, Motoo Shiina, third son of Etsusaburo Shiina, former deputy president of the LDP, was elected for the first time in the October 1979 general election. With his election, the LDP won three of the four seats [for the prefecture] with second generation candidates.

Shiga answered critics that there was "nepotism," as follows.

"It does not need to be emphasized, but accurately speaking based on the sequence of events, I am not a generational Diet member. After my father's retirement, someone from the outside was first appointed to be his successor."

At any rate, it is true that the family has had three successive generations of politicians.

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130

Copious Experiences Unquestioned by Either Majority or Minority Parties

Since the time of his first election, Shiga has had many and various assignments within the lower house and the party. Combining the traits of being tough and daring on the one hand, and solid and accurate on the other, Shiga's diligent work ethic has been highly rated by the party leaders and elder Diet members.

Shiga, who had majored in international politics at the USC graduate school and who is fluent in several foreign languages, has held such positions as director of the Foreign Affairs Committee, deputy chairman of the LDP Foreign Relations Research Association, chief of the International Bureau and parliamentary vice minister for foreign affairs. He is tops among the younger generation as an international affairs expert, and he has been highly rated as a member of the internationalist group. Shiga reminisced about the days when he had served as the parliamentary vice minister for foreign affairs.

"On my appointment as the parliamentary vice minister for foreign affairs, I was handed the written order by then Prime Minister Ohira at the prime minister's official residence. To this day, I have not forgotten Mr Ohira's words after the presentation. After everyone had received his written order, Mr Ohira said: 'All of you have been installed as parliamentary vice ministers. Some of you are elated with your assignment. Others are disgruntled at the assignment. But I hope you will bear this in mind. The position does not make the man. Rather, it is the man who makes the position.' I was extremely overwhelmed by these words. They still ring in my ears."

Also by having served as deputy chairman of the agriculture and forestry sectional conferences and as the parliamentary vice minister of agriculture, forestry and fisheries, Shiga has established a solid reputation as the expert on agricultural administration. The fact that his expertise is strong in this area is a carryover from his father. [passage omitted]

Along with his services related to agriculture and fisheries, Shiga has also served as director of the House Steering Committee and as assistant chairman of the National Countermeasures Committee, and in this capacity he has been active in the affairs of Diet management. Because of the comparatively small number of Diet members in the Komoto faction with expertise in this area, Shiga has become a dominating influence within the faction, and because of his many experiences, through service in the various positions, that would not be questioned by either the majority or minority parties, Shiga is now being referred to as the information expert of the faction.

One other aspect that cannot be overlooked is Shiga's presence as an advocate of the communications field. As mentioned previously, Shiga was involved in the deliberations of the reform bill on the Nippon Telegraph and Telephone Public Corporation, when he was the chairman of the lower house's Communications Committee. Because it was an important bill, back-stage maneuverings were rampant with horse trading type negotiations, but because

the bill was satisfactorily settled, those who had dealt with Shiga looked on him with greater respect and admiration. Furthermore, during his tenure as chairman of the Communications Committee, Shiga was instrumental in having NHK [Japan Broadcasting Corporation] start up its hang-guru [Korean language] lectures.

Following this Shiga served as chairman of the Cabinet Committee. This committee is described to be the leader of the more than 20 committees responsible for bills covering a wide range of subjects. Shiga was primarily engaged in this committee in drafting bills relating to annuities and pensions, and he was also busily engaged in establishing the Cabinet Information Research Office. Having duly performed his duties in these capacities, Shiga was expected to be named in Prime Minister Takeshita's first revised cabinet, but as described in the opening paragraphs, he unfortunately was not picked. This is the bitter pill that one from a small faction has to swallow.

But he showed no sign whatsoever of disappointment and unconcernedly spoke of his ambitions.

"After observing from a broad perspective, I can clearly state that we must not think of Japan alone. In essence, unless a politician can deeply sense the presence of an internationalized Japan, he could cause Japan to take an erroneous course. For instance, in the field of communications which I have been interested in, I hope that some mechanism can be established so that information transmission internationally can be performed cheaply and in a smooth manner. To that end, I would like to be fully involved. And of course, not only in relation to communications, but with agricultural products and animal husbandry, or in the field of foreign diplomacy, I constantly look at Japan from a political perspective as an international country."

If you engage Shiga in talk about dreams for the future, there is no end. Of course, they are not pipe dreams. He talks seriously of dreams which have the possibility of being fulfilled, and he is doing his best to achieve this. In this respect, he is a true romanticist. At any rate, in the midst of a political world which is influenced by glittering materialism or horse trading tactics, it is extremely reassuring for Japan's future to know of the existence of a politician who is such a romanticist. One of the elder Diet members gave the following evaluation: "Shiga has always included the vision of Japan 10 years hence, 20 years hence in his policies." Indeed, in seeking politicians this is the most desired characteristic.

Shiga was asked what had impressed him most since becoming a politician. He shot back immediately, "The birth of the Miki cabinet." To the query as to who is the most respected politician, his reply was, "My mentor, Takeo Miki." I realized these questions were irrelevant.

Shiga's motto is said to be "Stick to one's original purpose throughout life." When will the day come when Setsu Shiga, the honest man who is tough, accurate, and a romanticist, surpass his mentor, former Prime Minister Takeo Miki.

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